Beacon Trust
INNOVATING WEALTH STRATEGY

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Beacon Weekly Investment Insights

The S&P 500 finished last week up 1.5%, but this modest return masks the incredible upside and downside volatility demonstrated by stocks over the course of a tumultuous week. Specifically, stocks surged roughly 5.5% over the first two days of the week, but then fell 4.0% over the final three days. The rally during the first part of the week may have been due to a mix of bargain hunting and short covering. However, the drop during the latter part of the week was largely due to a stronger than expected unemployment report. Despite fears of recession, the unemployment rate fell from 3.7% to 3.5%, likely forcing the Fed's hand on further rate hikes in order to tame inflation. The downdraft was exacerbated by the OPEC+ decision to cut oil production by up to 2 million barrels per day, a maneuver that is almost certain to further increase oil prices in an inflationary environment. Indeed, oil prices jumped almost 17% last week alone.

The U.S. economy added 263,000 jobs last month, which was a moderate drop from August's 315,000 gain. The Labor Force Participation rate dipped from 62.4% to 62.3%, partially resulting in the 0.2% decline in the unemployment rate. The Bureau of Labor Statistics (BLS) requires that individuals be looking for a job in order to be considered unemployed. The unemployment report is of great interest to investors since the consumer comprises about 70% of U.S. GDP and the most important factor that drives a consumer's spending behavior is having a job. The bottom line is that with the unemployment rate at a near 50 year low and inflation still out of control there is virtually no way that the Fed can pause right now on its rate hike and money supply tightening program.

Earnings season will kickoff this week and accelerate over the following two weeks. Among the leading company expected to report this week include Pepsi on Tuesday, BlackRock, Delta Airlines, Domino's Pizza, and Wells Fargo on Thursday, and Citigroup, JP Morgan, Morgan Stanley, and UnitedHealth Group on Friday. Earnings are always important, but the current crop of reports will be especially closely followed since if a broad cross-section of companies project earnings cuts, versus prior estimates, it may indicate that a recession is on our doorstep.

Sadly, the war between Russia and Ukraine continues and has even escalated. Ukraine bombed a bridge that delivered supplies from Russia to Crimea and to the battlefront. Importantly, this bridge was built after Russia's annexation of Crimea in 2014 and was a source of pride for Vladimir Putin. Putin continued to threaten to use all means at his disposal, including tactical nuclear weapons and President Biden opined, "For the first time since the Cuban missile crisis, we have a direct threat to the use of nuclear weapons." With these low probability events, with potentially devastating consequences, we continue to hope that peace will arrive sooner than later.

Undoubtedly, the most anticipated economic report of the week will be the Consumer Price Index (CPI) released on Wednesday. Inflation is still stubbornly high with the prior month reading of 8.3% year over year. A strong number will further steel the Fed's resolve to continue its aggressive tightening program, possibly resulting in further downside to stock and bond prices. The Federal Open Market Committee (FOMC) minutes will also be released on Wednesday. The minutes provide further detail and insights into the Fed's decision-making process.

Although the unemployment report was released last week, the Weekly Jobless Claims report will be released on Thursday and helps drive the next unemployment report. The monthly Retails Sales report will be released on Friday, providing one metric on the health of the consumer, which is the backbone of the U.S. economy. The University of Michigan Consumer Sentiment Survey will also be released on Friday. Sentiment is expected to be subdued as long as inflation remains elevated.

Market Scorecard:	10/7/2022	YTD Price Change
Dow Jones Industrial Average	29,296.79	(19.38)%
S&P 500 Index	3,639.66	(23.64)%
NASDAQ Composite	10,652.40	(31.91)%
Russell 1000 Growth Index	2,142.73	(30.32)%
Russell 1000 Value Index	1,368.09	(17.37)%
Russell 2000 Small Cap Index	1,702.15	(24.19)%
MSCI EAFE Index	1,693.58	(27.50)%
US 10 Year Treasury Yield	3.883%	237 basis points
WTI Crude Oil	$93.20	23.53%
Gold $/Oz.	$1,701.80	(7.03)%

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