

Beacon Weekly Investment Insights

Last week financial markets ended the month of November and began the final month of 2023 in quite a positive mood. Positive news on inflation during the week fueled investor speculation that the Federal Reserve has most likely ended their rate hiking cycle, and now speculation can begin on the timing of the first interest rate cut. At week's end, the Dow Industrials had risen 2.4%, the S&P 500 rose 0.77% and the NASDAQ Composite rose 0.38%. This performance clearly reflects an emphasis on more cyclical industries reflected in the Dow as opposed to the technology heavy NASDAQ. Last week, within the S&P 500, sectors leading the way were Real Estate (+4.6%), Materials (+2.6%), Industrials (+2.1%), and Financials (+2.1%).

We have previously written about our affinity for a broadening out theme within the equity markets, where performance attribution extends beyond a narrow handful of companies and sectors dominating performance. Along this same theme, the broadening away from domestic Large Cap's was evident with the Russell 2000 small cap index up 3.1% for the week. While a week or month is too short of a period to declare confirmation of this theme, it is refreshing to see.

Interest rates also moved lower aggressively during the week. The yield on the benchmark US 10-Year Treasury Note dropped 27 basis points (0.27%) to end the week at 4.20%, the lowest since September. Shorter maturities declined even sharper, with the US 2-Year Treasury Note dropping 41 basis points to 4.54%. Clearly, market expectations for successive rate cuts by the Federal Reserve are contributing to the rally in bond prices. Remember, bond prices and yields have an inverse relationship where when prices rise, yields decline.

A few data points on the housing market were released last week based mainly on pricing. The Case Shiller National Home Price Index rose at a 3.9% annual rate in September up from 2.5% in August. The data has a two-month lag, and reflects a three-month moving average, but the trend for higher prices remains intact. The September reading was a record level and continues to reflect the disparity between supply and demand. While demand has cooled somewhat due to the increase in mortgage rates, prices remain elevated.

On the inflation front, the personal consumption expenditures index, (PCE) which is the Federal Reserve's preferred method of measuring inflation, was reported at 3% in October on a year over year basis, but flat on a month over month basis. The year-over-year gain was the smallest incremental gain since March of 2021. This moderating inflation figure is the reason investors feel more confident that the rate hiking cycle has come to an end. After this release, futures markets are now implying the first interest rate cut by the Federal Reserve at their March 2024 meeting whereas previously the June meeting had been targeted. On Friday, Chairman Powell, in a speech described monetary policy as "well into restrictive territory", and that economic activity was slowing. However, he followed by saying that it would be "premature" to conclude that they have achieved a sufficiently restrictive point to achieve their 2% inflation target.

Finally, separate consumer confidence measures were released by the Conference Board and the University of Michigan during the week, both reflecting declines. Inflationary pressures were cited in both cases in consumer's views of their current situation as well as the outlook ahead.

This week, we will have a busy week for important data releases. Monday will focus on factory orders and capital goods orders where manufacturing activity has been contracting. The ISM Services index is released on Tuesday for a gauge on the largest part of the US economy. Wednesday we will see mortgage application data along with the ADP private sector employment report. Thursday is jobless claims data followed Friday by the November Unemployment Report.

Market Scorecard:	12/1/2023	YTD Price Change
Dow Jones Industrial Average	36,245.50	9.35%
S&P 500 Index	4,594.63	19.67%
NASDAQ Composite	14,305.03	36.67%
Russell 1000 Growth Index	2,935.49	36.02%
Russell 1000 Value Index	1,564.48	4.50%
Russell 2000 Small Cap Index	1,862.64	5.01%
MSCI EAFE Index	2,130.49	9.60%
US 10 Year Treasury Yield	4.20%	31 basis points
WTI Crude Oil	\$74.07	-7.71%
Gold \$/Oz.	\$2,072.22	13.61%



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