Beacon Trust
INNOVATING WEALTH STRATEGY

February 27, 2023

Beacon Weekly Investment Insights

Last week saw a continuation of the recent volatility in equity markets, after a strong start to the year. The S&P 500 ended the week down -2.7%, with the Dow down -2.9%, and the tech-heavy Nasdaq down -3.3%. Oil prices ended the week up slightly, with WTI Crude closing at $76.32/barrel. The 10-year treasury yield moved up from 3.82% to 3.95% to close the week.

Economic data released last week included the S&P flash U.S. Services and Manufacturing PMI data, which was mixed. The Services index showed a recovery coming in at a reading of 50.5, up from 46.8, and slightly higher than the critical level of 50 (any reading above 50 suggests expansion in the economy, and any number below 50 suggests a contraction). However, the Manufacturing index remains in contraction, coming in with a reading of 47.8, although up from the prior month's reading of 46.9. The Fed minutes were also released last week, which did not provide a whole lot in the way of new information. The minutes generally showed that the Fed is of the mindset that further rate hikes will continue to be needed in order to combat inflation, with almost all Fed officials agreeing that it was appropriate to raise interest rates by 0.25% at the February meeting. The minutes also noted that a few members were in favor of a larger 0.50% increase. Ultimately, and in line with our broader outlook, Fed commentary continues to point to higher rates for longer. In line with that, Fed funds futures markets are pricing three more 0.25% interest rate hikes for the next three meetings in March, May, and June, with the Fed Funds rate projected to level off at roughly 5.3%.

Hotter than expected inflation figures released last Friday also contributed to the volatility last week. The Core PCE (personal consumption expenditures) index, which is the Fed's preferred measure of inflation, increased by a larger than expected 0.6% for January, vs. expectations for a 0.5% increase and the prior month's 0.4% increase. Likewise, the year-over-year increase for the Core PCE index came in at a higher than expected 4.7% increase, vs. expectations for 4.4% and the prior month's increase of 4.6%. Consumer spending readings showed resiliency, with consumer spending up a larger than expected 1.8%, vs. expectations for a 1.4% increase, and a prior reading that showed a slight decline of -0.1%. Personal incomes did not grow as much as expected, with an increase of 0.6% for January vs. expectations for a 1.2% increase, but up from the prior month's increase of 0.3%. In addition, the first revision to the Q4 2022 GDP numbers came out last week, which showed a slight decrease to 2.7%, down from the initial reading of 2.9%. All in all, higher than expected inflation readings, coupled with a jobs market that remains tight, are contributing to expectations that the Fed will need to remain hawkish in line with their recent commentary.

Earnings season is winding down, with 94% of companies in the S&P 500 having reported as of the end of last week. Earnings season has been underwhelming relative to expectations, with 68% of companies that have reported beating earnings, significantly lower than the longer-term average of roughly 77% of companies beating earnings expectations. Likewise, 66% of companies have beaten revenue expectations, also meaningfully lower than the long-term average. The blended earnings decline for companies that have reported is -4.8%, with expectations coming into the quarter being a decline of -3.3%. Several retailers reported last week, including the likes of Walmart and Home Depot, which had weaker than expected outlooks, adding to volatility. However, there have been pockets of strength on an idiosyncratic basis. A prime example was Nvidia, which reported better than expected fourth quarter results and guidance last week. The company has seen a recovery in gaming revenues, and is benefiting from the recent focus on artificial intelligence. Nvidia's GPU's are utilized in the training of AI models such as Chat GPT, and AI generally represents a significant nascent opportunity for the company going forward. Optimism around the company drove shares up roughly 14%. Our focus remains on investing in high quality businesses with strong financial models and great prospects, that have the ability to successfully navigate the environment, while remaining focused on the long-term.

Economic data on the docket for this week includes durable goods orders, pending home sales, the S&P Case Shiller home price index, and consumer confidence data, which are set to be released early on in the week. Both the ISM Manufacturing and Services indices are also on tap, set to be released on Wednesday and Friday, respectively.

Market Scorecard:	**2/24/2023**	**YTD Price Change**
Dow Jones Industrial Average	32,816.92	-1.00%
S&P 500 Index	3,970.04	3.40%
NASDAQ Composite	11,394.94	8.87%
Russell 1000 Growth Index	2,297.26	6.44%
Russell 1000 Value Index	1,519.06	1.47%
Russell 2000 Small Cap Index	1,890.49	7.34%
MSCI EAFE Index	2,035.26	4.70%
US 10 Year Treasury Yield	3.95%	+7 basis points
WTI Crude Oil	$76.32	(4.91)%
Gold $/Oz.	$1,817.10	-0.50%