Beacon Trust
INNOVATING WEALTH STRATEGY

April 3, 2023

Beacon Weekly Investment Insights

Stocks declined modestly over the first week of the second quarter, with the S&P 500 dropping 0.1%. This comes on the heels of a strong first quarter that saw the S&P 500 rise a healthy 7.5%. Of course, investors have not forgotten about the painful 18.1% drop for the S&P 500 over the full 2022 calendar year, but the gain helps salve fresh wounds. Narrow market leadership is one concerning element regarding the strong year-to-date rally. Ninety percent of the market's gain may be attributed to only 20 of the 500 stocks that comprise the S&P 500.

Corporate earnings reports from 2023Q1 will start to trickle out soon, so the bulk of the news last week was economic or political related. The regional banking crisis that has occupied the financial headlines for the past few weeks moved to the background, at least temporarily. There was no news related to the failure of another sizeable bank and the flow of deposits out of smaller banks seems to have stabilized. However, as the Q1 earnings reports are released over the next several weeks we expect continued volatility related to banks that have lost substantial deposits.

The Institute for Supply Chain Management (ISM) released its Manufacturing survey on Monday and its Non-Manufacturing (Services) survey on Wednesday. The ISM reports survey buyers or purchasing managers and are therefore considered forward looking indicators. The manufacturing report suggested contraction, while the services report suggested a weak expansion, although the number was down noticeably from the prior month's reading. In short, we continue to forecast a sluggish economy with the odds increasing that we are headed for a "typical" recession.

The Unemployment Report was released on Friday, even though the stock market was closed due to religious holidays. The unemployment rate dipped from 3.6% to 3.5%, remaining near half century low levels. On the surface the falling unemployment number suggests the Fed should continue its hawkish posture, but the hourly wage increase of 0.3% monthly and 4.2% annually provided some ammunition for doves, since it was the lowest figure since June 2021. We also note that historic indictment and arrest of former President Donald Trump last week did not appear to have a material impact on financial markets.

The economic calendar is fairly busy this week. The most anticipated release will undoubtedly occur when the Consumer Price Index (CPI) Report is distributed on Wednesday. Inflation is expected to continue its deceleration but still remain close to 6%, far above the Fed's 2% target. Several Fed Governors will be on the speaker circuit this week and their views on inflation are certainly expected to be a hot topic, since the Wednesday CPI report will be the last before the Federal Reserve Open Market Committee (FOMC) meeting on May 3rd. The odds for the Fed's actions after the May meeting still lean toward another 25bps hike, bringing short-term rates to a generational high of 5.25%. Interest rates at this level are good for savers, but make it more expensive to finance the purchases of automobiles, homes, and a range of other products and services.

Two reports will be published this week that are related to wholesale inflation, often a leading indicator of retail inflation. On Monday the Wholesale Inventories Report will be released. If inventories are higher than expected, it may be a sign of continued declines in retail inflation. The Producer Price Index (PPI) Report, an explicit measure of wholesale inflation, will be released on Thursday. Two consumer-related economic reports will be released on Friday. The U.S. Retail Sales and University of Michigan Consumer Sentiment reports will provide an indication if the regional banking crisis has negatively impacted the consumer.

Market Scorecard:	4/7/2023	YTD Price Change
Dow Jones Industrial Average	33,485.29	1.02%
S&P 500 Index	4,105.02	6.92%
NASDAQ Composite	12,087.96	15.49%
Russell 1000 Growth Index	2,445.90	13.33%
Russell 1000 Value Index	1,503.32	0.41%
Russell 2000 Small Cap Index	1,754.46	-0.39%
MSCI EAFE Index	2,100.33	8.05%
US 10 Year Treasury Yield	3.288%	-59 basis points
WTI Crude Oil	$80.46	-0.06%
Gold $/Oz.	$2,023.70	10.58%

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