

Beacon Weekly Investment Insights

Financial markets posted mixed results for the week with the NASDAQ Composite leading the way with a 1.4% gain, while the Dow Jones Industrial Average declined by 2.3%. The broader S&P 500 index rose just 0.03%, better reflecting the ebbs and flows of economic data points and earnings results. Fixed income markets were generally negative with most of the yield rise coming in the shorter maturity Treasury market, with the 2-year rising 12 basis points, the 5-year rising 8 basis points and the benchmark 10-year maturity rising 4 basis points.

For those investors focused on the Federal Reserve and interest rate policy, the disappointment of the week came in the form of the S&P Global Flash US Composite PMI data. The release, which measures activity of both the service and manufacturing sectors rose to 54.4 in May from 51.3 in April. This represents a 25-month high and the first reading of the year that hasn't shown some slowing. Any index reading over 50 signals expansion, similar to the more familiar ISM indices. While some may argue that better economic data should be seen as good news, the others view this strength as a reason to remain concerned about inflationary pressure and a delay in the Federal Reserve's eventual Fed Funds interest rate reduction cycle.

Consistent with the mixed economic data, sales of existing homes declined 1.9% month over month versus consensus expectations for an increase of 1.4%. Sales of existing homes is the largest segment of the housing market, and a few dynamics are currently working against potential home buyers. First, mortgage rates have remained stubbornly high, with the average rate for a standard 30-year mortgage still slightly above 7%. There is also a low inventory of existing homes for sale as these higher rates are causing more homeowners to remain in their homes that carry a lower mortgage rate. According to the National Association of Realtors (NAR), there is about a 3.5-month supply of homes on the market versus a 4-to-6-month supply which they consider a normal balance between buyers and sellers. Finally, this low inventory is also putting upward pressure on prices. The median existing home price rose 5.7% in April (year-over-year) to \$407,600.00 also according to the NAR.

The final data point for those investors most concerned with Fed policy took note of the release of the minutes from the April 30-May 1 FOMC meeting. While most members commented about their patience with current rate levels, expecting to see moderation in inflationary pressure over time, some focused on a potential willingness to increase rates if inflationary pressures remain elevated. Many Fed officials have speaking engagements following meetings and the overwhelming consensus is to exercise patience with the current policy as the economy continues to be resilient.

For those investors focused more on corporate earnings, the week was all about Nvidia. The company reported blockbuster results after Wednesday's market close and rose in excess of 9% during Thursday's trading day despite the broader markets having one of their worst performance days in over 12 months. The company's dominance in Artificial Intelligence chips is the driving force for the company, but the CEO has further plans for a more expanded role for the company in the future for more software and data centers.

We are concluding the first quarter corporate earnings season, as we now have 96% of the S&P index constituents reported with the figures being better than expected. Earnings are up 7.7% year over year, while revenues are up 4.1%. Consensus had been for a 3.9% earnings increase. Eight of 11 sectors have had positive earnings growth with Communication Services (up 41%), Utilities (up 31%) and Consumer Discretionary (up 27%) leading the way.

This week will have a wide range of economic releases we will watch. Tuesday, we will have the Case Schiller 20 City Home Price Index along with the Conference Board's Consumer Confidence Index. The Federal Reserve's Beige Book is released on Wednesday and is a summary of national economic conditions. Thursday we will see GDP estimates along with the personal consumption and price index. To end the week, the Fed's favored inflation

measure, the Personal Consumption Expenditures Index (PCE) will be released before the market open. Also, throughout the week, some final earnings reports from retailers Costco, Best Buy, and Dollar General along with tech companies, Salesforce and Dell.

Market Scorecard:	5/24/2024	YTD Price Change
Dow Jones Industrial Average	39,069.59	3.66%
S&P 500 Index	5,304.72	11.21%
NASDAQ Composite	16,920.79	12.72%
Russell 1000 Growth Index	3,481.95	14.10%
Russell 1000 Value Index	1,734.98	6.48%
Russell 2000 Small Cap Index	2,069.67	2.10%
MSCI EAFE Index	2,358.87	5.49%
US 10 Year Treasury Yield	4.47%	59 basis points
WTI Crude Oil	\$77.72	8.47%
Gold \$/Oz.	\$2,333.82	13.13%

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