Beacon Trust
INNOVATING WEALTH STRATEGY

August 5, 2024

Beacon Weekly Investment Insights

Fireworks erupted on Wall Street last week and not in a good way. The S&P 500 fell 2.5% last week, with a more dramatic drop of 4.5% occurring from Wednesday's peak to Friday's trough. Small Cap stocks gave up an even bigger portion of their recent gains, with the Russell 2000 Index falling nearly 7% last week. The CBOE Volatility Index (VIX), an investor fear gauge, spiked 40% over the course of last week. The main macroeconomic catalysts for the market turmoil were concerns about the Federal Reserve's failure to lower interest rates and a rise in the unemployment rate that triggered a popular recession indicator, the Sahm Rule. Relatively weak earnings reports from technology bellwethers, Amazon.com and Intel, also added to investor angst.

The Federal Open Market Committee (FOMC) concluded its July meeting last Wednesday and kept interest rates at their current level of 5.25%-5.50%. The Fed also signaled that its next move is likely to lower interest rates at its September meeting, which would be the first time since the COVID-19 pandemic exploded on the world scene. On the surface, the Fed's message was largely in line with Wall Street expectations. However, as the week continued to unfold, the narrative swung from the Fed missing the inflation surge on the way up to now being too slow to cut interest rates as the economy weakens. This fear was bolstered by Friday's nonfarm payroll or employment report, which saw the headline unemployment rate increase to 4.3%, the highest level since October, 2021. The report showed 114,000 net new jobs were created, well below the consensus estimate of 175,000.

Former Fed Economist, Claudia Sahm, developed a model that forecasts recessions based on increases in the unemployment over the prior few months. As noted above, the Sahm Recession Indicator now suggests the U.S. economy is in a recession. This indicator has a good historical track record, but we note other techniques for forecasting a recession, such as the inverted yield curve, have not yet resulted in a formal recession.

Bonds, maligned for much of the year, proved their usual diversifying benefits during times of stock market distress. The Bloomberg Barclays Aggregate Bond Index increased 2.4% last week. It is now up a respectable 3.3% year-to-date, after being in negative territory roughly a month ago. The benchmark 10-Year U.S. Treasury Note is now firmly below the 4.0% level, ending last week at 3.79%. The decline in long-term interest rates may continue to support real estate prices, despite the negative trend in employment. The S&P Case-Shiller U.S. National Home Price Index was released last week and showed home prices reaching a record high, delivering a 5.9% gain year-over-year.

Amazon.com, often viewed as a bellwether for the American and global consumer, fell 8% last week in the wake of a somewhat disappointing earnings report. Amazon's cloud business showed reasonable growth, but the revenue for its consumer unit missed analyst expectations. Intel experienced its biggest daily stock price drop in more than 40 years, falling 26% last Friday, after a somewhat disastrous earnings report and the announcement of the suspension of its quarterly dividend. In many respects, Intel has been surpassed by its competitors, NVIDIA, AMD, and TSMC and has a long road ahead to regain its former luster. Warren Buffett of Berkshire Hathaway added some fuel to the recent rotation away from technology stocks. Over the weekend, Berkshire Hathaway reported it sold half its large stake in Apple. Berkshire also reported a record cash pile of $277 billion, stoking fears that the "Oracle of Omaha" may be hoarding cash in anticipation of continued weakness for U.S. stocks. Buffett did not explain his rationale for substantially reducing his Apple stake, but in a prior shareholder meeting alluded to the expectation of higher capital gains taxes in the future.

The economic calendar is fairly light this week, although the earnings reporting season is still in full swing. The Institute for Supply Chain Management (ISM) will publish their forward-looking ISM Services Index on Monday. If it suggests a contracting economy, similar to its manufacturing analog, downside volatility in stocks may persist. The Consumer Credit report will be released on Wednesday, providing another pulse on the spending of the American consumer. Tom Barkin, President of the Richmond Federal Reserve, will be speaking on Thursday. Given the turmoil in the aftermath of the Fed's last meeting we would not be surprised to see more Fed governors hit the road this week in an effort to assuage market fears.

During times of market volatility, we wish to reiterate our philosophy of diversification and a long-term focus. We regularly monitor client portfolios to ensure there is sufficient liquidity on hand for ongoing needs, so risk-oriented assets do not have to be sold during times of market distress. As always, feel free to reach out to anyone on the Beacon time with your questions or concerns.

Market Scorecard:	**8/2/2024**	**YTD Price Change**
Dow Jones Industrial Average	39,737.26	5.43%
S&P 500 Index	5,346.56	12.09%
NASDAQ Composite	16,776.16	11.76%
Russell 1000 Growth Index	3,465.19	13.55%
Russell 1000 Value Index	1,754.59	7.68%
Russell 2000 Small Cap Index	2,109.31	4.06%
MSCI EAFE Index	2,342.05	2.47%
US 10 Year Treasury Yield	3.792%	-7 basis points
WTI Crude Oil	$74.14	3.94%
Gold $/Oz.	$2,486.10	20.00%

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