Beacon Trust
INNOVATING WEALTH STRATEGY

July 25, 2022

Beacon Weekly Investment Insights

Stocks rallied last week, continuing their recovery following a steep 8% drop in June, as investors wagered that we may have seen the market bottom last month. S&P 500 finished the week up 2.6%, while the Dow Jones Industrial Average rallied 2.0%, and the Nasdaq Composite advanced 3.3% as the major indices found some price stability during the week.

It was a busy week on the earnings front. The week kicked off with a strong report from Goldman Sachs that followed mixed results from the rivals Morgan Stanley and JP Morgan in the prior week. Goldman beat analysts' expectations, although earnings were still lower than a year ago. Strong results from its fixed income trading helped the bank offset a drop in investment banking revenue.

IBM, a bellwether stock, beat expectations for both revenue and earnings, but it trimmed its 2022 cash forecast, causing its shares to slide. Snap Inc., a large social media company, also disappointed investors and lost 40% its value after it reported disappointing results that missed expectations. Snap cited deteriorating macroeconomic conditions in a challenging economy, as well as slowing online ad demand for its earnings miss. Other social media stocks followed suit.

One of the so called "stay-at-home" companies, Netflix, also reported last week, and its shares moved higher despite losing 970,000 subscribers during the second quarter, as the loss was considerably less than the 2 million it had projected in the prior quarter. For the third quarter, Netflix expects to add 1 million new customers. The company announced that it will also introduce a lower-cost, ad-supported service in early 2023 for the price-conscious customers to reinvigorate growth.

Rising interest rates and high prices continue to have an impact on the housing market. New home starts fell to a nine-month low in June, the latest indication of a cooling housing market. Housing starts fell 2% to a seasonally adjusted annual rate of 1.56 million units last month, the lowest level since September of last year. Economists were expecting 1.58 million units. Other housing data that came out during the week also pointed to a slowdown in the housing market. Mortgage demand dropped to a 22-year low due to the surge in mortgage rates in 2022, and June home sales fell 5.4% from May and sank 14.2% from a year ago.

Another indicator that is pointing to an economic slowdown is the rise in unemployment claims. Initial jobless claims rose to 251,000 from 244,000 the week before. Continuing claims also increased to 1.38 million, the highest level since April. A separate release by the Philadelphia Fed produced the lowest employment reading since May 2021. Labor markets have been robust coming into the summer with strong payroll gains and low unemployment rate, however, companies such as Apple, Meta, Netflix and Microsoft have all announced plans to slow hiring to deal with a possible downturn.

The week ended with S&P Global's U.S. Composite PMI index confirming contraction in business activity for the first time in two years. The index declined more than expected to 47.5 in July from a reading of 52.3 in June. A reading below 50 indicates contraction. High inflation, rising interest rates, and deteriorating consumer confidence led to a slowdown in the service sector, which offset a modest growth in manufacturing.

On the political front, the U.S. Senate advanced a critical bill to boost the much-needed semiconductor manufacturing in United States by providing $50 billion in subsidies to chipmakers. The bill would not only help ease chip shortages that are affecting so many industries across the economy from cell phones to automobiles, but also enhance national security by decreasing our dependence on China and other Asian countries.

This week's most important event will be the two-day meeting of the Federal Open Market Committee (FOMC), which will conclude with an interest rate decision on Wednesday. We expect the Fed to increase its benchmark Federal Funds rate by 75bps to a range of 2.25% - 2.50%, although a more aggressive 100bp hike is not totally out of the question, given the high inflation print. Financial markets could remain volatile as sentiment shifts between a soft landing scenario and a less probable hard landing scenario.

The earnings season will also be in full swing this week and it will be one of the main drivers of stocks with half of the S&P 500 companies, and two-thirds of the technology companies reporting their second quarter earnings, including the Big Tech companies: Microsoft, Alphabet, Meta, Apple, and Amazon. We expect many tech companies to mention the strength of the U.S. dollar as one of the major factors impacting their sales and profits, since 60% of their revenue comes from overseas. For the market as a whole, analysts estimate second quarter earnings to grow by 6.2%, and the full year earnings to grow around 10% despite recession fears, as companies learn to adapt to higher costs.

Second-quarter GDP report will also be reported this week. A negative number for the second quarter, following a 1.6% decline in the first quarter and declines in other data, could meet the official definition of a recession. Other economic reports during this week include Fed's preferred inflation report (personal consumption expenditures index), S&P/Case-Shiller home prices, new home sales, and the consumer sentiment report.

It is certainly shaping up to be the most consequential week of the summer.

Market Scorecard:	**7/22/2022**	**YTD Price Change**
Dow Jones Industrial Average	31,899.29	(12.22)%
S&P 500 Index	3,961.63	(16.88)%
NASDAQ Composite	11,834.11	(24.36)%
Russell 1000 Growth Index	2,348.08	(23.64)%
Russell 1000 Value Index	1,470.78	(11.17)%
Russell 2000 Small Cap Index	1,806.88	(19.53)%
MSCI EAFE Index	1,897.38	(18.78)%
US 10 Year Treasury Yield	2.76%	125 basis points
WTI Crude Oil	$94.70	25.91%
Gold $/Oz.	1,727.10	(5.55)%

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