

Beacon Weekly Investment Insights

Last week was a positive one for equity markets, with the S&P up 1.13%, the Dow up .24%, and the Nasdaq up 2.09%. The week capped off what was a strong month, with the S&P 500 up 5.4%, the Dow up 5.7%, and the Nasdaq up 4.4% for the month of November. Fed Chair Powell's speech last Wednesday at the Brookings Institution served as a significant catalyst for markets. Chair Powell did note that monetary policy is likely to remain restrictive for some time, and that in its continued effort to bring inflation down, the Fed will "stay the course until the job is done." However, Chair Powell also commented that smaller interest rate increases are likely going forward, all but confirming a 0.50% interest rate hike for the upcoming Fed meeting on December 14th. Fed funds futures markets adjusted after the speech, pricing in a higher probability of a 0.50% increase in December, ultimately projecting that the Fed funds rate will settle out in the 4.75%-5.00% range, which was lower than expectations heading into Wednesday's speech. Equity markets unsurprisingly reacted to this with a strongly positive move on the day.

There was also a variety of closely watched economic data released last week, including the S&P Case-Shiller U.S. home price index which showed another decline in housing prices. The report showed home prices slowing to a 10.6% year-over-year increase in September, down from 12.9% in the previous month, as higher mortgage rates continue to soften demand. Both the ADP employment report and updated figures for Q3 Real GDP were released prior to Chair Powell's speech on Wednesday. The ADP employment report showed a slowing in private payrolls for November, coming in at 127,000 jobs, down from 239,000 in the prior month and less than consensus expectations for 190,000. Q3 real GDP, however, came in above expectations, showing 2.9% growth as compared to the previous estimate of 2.6% and expectations for 2.7% growth.

Thursday brought the release of the Core PCE reading (the Fed's preferred measure of inflation), which came in lower than expectations with a monthly increase for October of 0.2% against expectations for a 0.3% increase and a prior increase of 0.5%. The Core PCE index showed a year-over-year increase of 5.0%, in line with expectations and down slightly from the prior month's reading of 5.1%. Previous inflation readings that have come in lower than expected have unsurprisingly driven significant upward moves in equity markets. However, stocks closed the day relatively flat despite the lower than expected inflation readings, given the strong positive reaction to Chair Powell's comments on Wednesday. In addition, the ISM Manufacturing index data was also released on Thursday, which showed factory activity declining to a reading of 49%, down from 50.2% in the prior month. Any reading below 50% signals contraction in the economy. Lastly, the U.S. Department of Labor payrolls report was released on Friday, and showed a large upside surprise to expectations. Payrolls came in at 263,000 vs. expectations for 200,000 and the prior figure of 284,000. Importantly, significant wage pressures continue, with average hourly earnings up 0.6% for November, double the expectation for a 0.3% increase. In addition, the labor force participation rate ticked down to 62.1%. Ultimately, the strength in the labor market and meaningful increase in wages likely serve to bolster the Fed's hawkish stance in tightening monetary policy. There was initially downward pressure on equity markets, before the S&P 500 recovered to close relatively flat on the day.

Alongside domestic economic data we also continue to closely monitor overseas developments, particularly the protests in China, and some moderating of Covid policies with Shanghai and Hangzhou announcing an easing of Covid testing requirements. A meaningful relaxation of China's Covid Zero policies could be a positive catalyst for global GDP growth.

This will be a lighter week in terms of economic data. The ISM Services Index and Factory order readings for November and October, respectively, are due out today. The PPI (producer price index) and University of Michigan consumer sentiment readings are due out on Friday.

Market Scorecard:	12/2/2022	YTD Price Change
Dow Jones Industrial Average	34,429.88	(5.25)%
S&P 500 Index	4,071.70	(14.57)%
NASDAQ Composite	11,461.50	(26.74)%
Russell 1000 Growth Index	2,335.39	(24.05)%
Russell 1000 Value Index	1,560.75	(5.74)%
Russell 2000 Small Cap Index	1,892.84	(15.70)%
MSCI EAFE Index	1,983.24	(15.10)%
US 10 Year Treasury Yield	3.49%	198 basis points
WTI Crude Oil	\$79.98	6.34%
Gold \$/Oz.	\$1,809.60	(1.04)%

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