Beacon Trust
INNOVATING WEALTH STRATEGY

December 19, 2022

Beacon Weekly Investment Insights

Two much anticipated events from last week were pivotal for the short term investor sentiment. On Tuesday, the Labor Department released the November consumer price index (CPI), which showed a year over year increase in the prices consumers pay for goods and services of 7.1%. While still elevated, this report was down from the 7.7% increase in October and down substantially from the 9.1% peak reached in June. Core CPI, which excludes energy and food prices, rose 6.0% in November, cooling from the 6.3% reading in October. This continuation of the moderating price trends is the welcome relief investors have been hoping for as we all look to the end of the Federal Reserve's interest rate hiking cycle.

The second major event of the week was the conclusion of the Open Market Committee's two day meeting, where they raised the benchmark Fed Funds rate by 50 basis points (0.50%). The overnight lending rate now stands at a range of 4.25% to 4.50%, a 15 year high. While this size increase was also widely telegraphed, the commentary surrounding the release was more hawkish than investors had anticipated. The projections released after the meeting show most Fed officials projecting a peak level somewhere between 5.0% and 5.50% in 2023. In contrast, September's projections had indicated a high of around 4.60% at the end of 2023.

Along with the interest rate expectations, the Fed also updated their economic growth forecast for 2023. They now see US GDP growth of just 0.5%, down from September's 1.2% projection. Unemployment should climb to 4.6%, which also is higher than their September forecast, and above today's current estimate of 3.7%. While these types of figures are more consistent with a recessionary environment which would naturally continue to moderate inflation, the Fed actually raised their core inflation forecast to 3.5% from 3.1%. Part of the Fed narrative around inflation continues to be the strong labor market with weekly jobless claims remaining in a tight range despite the announced layoffs in industries such as tech, finance, and real estate.

These are the details that changed the current narrative to more of a recessionary conversation from the "soft landing" conversation that had taken hold. Additionally, November retail sales reported on Thursday fell 0.6% from October, representing the biggest decline of the year. Holiday spending by consumers may have been pulled forward, but also higher interest and financing rates seem to be slowing larger purchases like autos, furniture, electronics, and clothing. In a separate report on Thursday, US manufacturing fell by 0.6%, representing the first drop since June.

The weight of these higher interest rate and inflation expectations, along with the weakening economic data weighed on financial markets, equity indices in general. The Dow Jones Industrials finished the week down 1.7%, the S&P 500 finished down 2.1%, and the NASDAQ Composite fell 2.7%. This was the second consecutive weekly loss for the major equity indices.

We are expecting plenty more economic data focused mostly on real estate/housing in the week ahead. Monday we have the release of the National Association of Home Builders Market Index, which thus far has declined every month this year. Private housing starts are released on Tuesday followed by November existing home sales on Wednesday. Higher mortgage rates and housing affordability will be key factors reflected in these data points. The Conference Board will also release their Consumer Confidence Index on Wednesday. Expectations are for a slightly lower reading than November, but still well off the summer lows. Thursday, the Bureau of Economic Analysis will release the final revision of third quarter US GDP, expected at 2.9% annualized, followed by Friday's release of personal income and spending data. The Fed's preferred measure of inflation, the core personal consumption expenditure price index (core PCE) is released as well with expectations for an up 4.7% figure down from 5.0% last month.

Market Scorecard:	12/16/2022	YTD Price Change
Dow Jones Industrial Average	32,920.46	(9.41)%
S&P 500 Index	3,852.36	(19.17)%
NASDAQ Composite	10,705.41	(31.57)%
Russell 1000 Growth Index	2,195.19	(28.61)%
Russell 1000 Value Index	1,483.18	(10.42)%
Russell 2000 Small Cap Index	1,961.54	(16.03)%
MSCI EAFE Index	1,962.94	(15.97)%
US 10 Year Treasury Yield	3.48%	197 basis points
WTI Crude Oil	$74.29	(1.22)%
Gold $/Oz.	$1,793.08	(1.94)%

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