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Beacon Weekly Investment Insights

The first month of 2022 turned out to be a rough start to the year. In what has become an annual ritual in the past few years, growth stocks sold off significantly in the first few weeks of the year as fears of higher interest rates led to a contraction in price-to-earnings multiples. Russell 1000 Growth index dropped by -8.6% in January, while the Russell 1000 Value index held up relatively well with a loss of -2.3%. International stocks, especially those in Emerging Markets countries, also had limited losses with the MSCI EM declining by only -1.9% due to better valuations.

Sectoral differences in performance were also significant in January. The energy sector started 2022 where it left off 2021 with a whopping +19.1% return in January due to limited supply. On the other hand, consumer discretionary stocks shed -9.7% to start the year as fiscal and monetary stimulus diminishes, yet consumers remain concerned about the Omicron variant, and inflation, which is running at the highest level in decades.

Anxiety in the labor markets was pronounced in the first of two jobs reports released last week. On Wednesday, ADP reported that private payrolls fell by 301,000 in January, a sizeable miss compared to the estimates which called for a 200,000 gain. This was the first drop in payrolls in over a year, as the Omicron variant hit hiring, especially in the leisure and hospitality sector.

The more closely watched nonfarm payroll report by the Labor Department on Friday showed an actual tightening in the labor markets as employers added 467,000 jobs last month against an estimate of 150,000 jobs gained and the unemployment rate stood at 4%. November and December totals were also boosted by 709,000, making 2021 gains of 6.7 million new jobs easily the biggest single-year gain in U.S. history. In another encouraging sign, the labor force participation rate, which is closely watched by the Federal Reserve officials, ticked up to 62.2%, as more people joined the workforce. This strong report will likely keep the Fed on track to raise short-term rates next month to fight off inflation, as they previously indicated. In fact, the futures markets signal 5-6 rate hikes this year.

The surprisingly strong jobs report also pushed the long-term yields higher. As of Friday, the benchmark 10-yr Treasury yield stood at 1.91%, its highest level in over two years. Perhaps the most visible sign of inflation can be seen at the gas stations. The national average for a gallon of gas rose to a 7-year high of $3.43 on Friday as the benchmark U.S. crude oil prices topped $92 per barrel, also a 7-year high. Some expect oil to hit triple digits soon, which was last seen in 2014.

Institute of Supply Management (ISM) reported that the manufacturing sector continued to expand for the 20th consecutive month. January Manufacturing PMI registered 57.6, a decline of 1.2 percentage points from December, but still signaling growth as the reading is above 50. In addition, ISM reported last week that the services sector has also grown 20 months in a row in January since a two month contraction in April-May 2020, registering 59.9, 2.4 points below the December reading. After a dramatic increase in goods purchases during the pandemic, we are seeing signs that consumers are shifting their spending habits from goods to services such as dining and travel as the pandemic ebbs.

Tensions between Russia and Ukraine remained high as U.S. Congress put finishing touches on a Russia sanctions bill that would impose severe financial restrictions on Russian individuals and companies. While it does not impact U.S. companies directly, a possible escalation would likely lead to higher market volatility and even higher commodity prices.

Corporate earnings continued to roll in at healthy levels. Alphabet, parent company of Google, reported better than expected earnings for the final quarter of 2021 with $75 billion in revenue vs $72 billion expected by the analyst community. The company also announced a 20-for-1 stock split, which doesn't change the fundamentals of the business, but makes the stock more affordable for small investors.

Meta Platforms Inc., formerly known as Facebook, reported disappointing earnings and weak guidance, which led to the biggest one-day drop in value in the history of the U.S. stock markets for any stock. The company was hit by privacy changes to Apple's iOS, supply chain issues impacting advertisers' budgets and high inflation. Its revenue was slightly above estimates, $33.7 billion vs $33.4 billion, although both daily active users (DAUs) and monthly active users (MAUs) inched slightly lower, leading to lower revenue forecast in the future.

Amazon was the last mega-cap tech company to report and it beat expectations. Its revenue climbed 9% in the fourth quarter and the company reported a gain of almost $12 billion from its investment in the electric vehicle company Rivian, whose shares climbed significantly after its IPO in November.

The big earnings beat by Amazon and the resulting double-digit rally in its shares helped S&P 500 finish the week 1.5% higher, its second weekly gain of the year. Nasdaq Composite rallied 2.4%, and The Dow Jones Industrial Average climbed 1.1% for the week.

The economic calendar will be relatively light this week with the Consumer Price Index (CPI) released on Thursday and University of Michigan's consumer sentiment reported on Friday. The headline inflation is expected at 7.3%, the hottest level since 1982, however there could be some improvement on a month-over-month basis. Corporate earnings will continue to roll in this week, including reports from Pfizer, Disney, and Coca-Cola.

Market Scorecard:	**2/4/2022**	**YTD Price Change**
Dow Jones Industrial Average	35,089.74	(3.44)%
S&P 500 Index	4,500.53	(5.57)%
NASDAQ Composite	14,098.01	(9.89)%
Russell 1000 Growth Index	2,778.00	(9.66)%
Russell 1000 Value Index	1,621.87	(2.05)%
Russell 2000 Small Cap Index	2,002.36	(10.82)%
MSCI EAFE Index	2,247.73	(3.78)%
US 10 Year Treasury Yield	1.91%	40 basis points
WTI Crude Oil	92.31	22.74%
Gold $/Oz.	1,807.80	(1.14%)

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