

Beacon Weekly Investment Insights

The stock market advanced for the third consecutive week as it continued to put a challenging April behind it. Specifically, the S&P 500 increased nearly 2% last week, 3.7% thus far in May, and 9.5% for the calendar year. Stocks advanced on continued strong earnings and signs that a somewhat softening economy may enable the Federal Reserve to go through with its plans to cut short-term interest rates this year. Futures markets are now expecting the Fed to first cut interest rates in September. However, the stock market tends to move 3-6 months in advance of the actual news, hence the recent mini rally. The interest rate picture may get further clarity after Tuesday's wholesale inflation report (PPI) and Wednesday's retail inflation (CPI) report, discussed further below.

The University of Michigan's Consumer Sentiment Survey for May dipped to its lowest level in 6 months. The aforementioned April stock drop, heightened inflation, and an uptick in the unemployment rate were among the factors that weighed negatively on sentiment. The bulk of Q1 earnings season is largely behind us, with more than 90% of S&P 500 companies having reported. According to FactSet, 78% of companies have exceeded earnings estimate and 59% have also surpassed revenue estimates. McDonald's tried to overcome a recent earnings warning by bringing back its popular \$5 value meal, a welcome reprieve for inflation strapped consumers.

A theme that appears to be emerging in the economic data is the dichotomy between affluent consumers and those at the lower end of the economic spectrum. Wealthier consumers are buoyed by stock market and real estate prices near all-time highs, a dynamic known as the "wealth effect." Conversely, those at the lower end of the wealth and income continuum often feel locked out of the housing market due to expensive home prices compounded by mortgage rates in excess of 7%. Furthermore, they are grappling with sharp rises in the price of food, gasoline, insurance, and many other necessities.

Investing legend James Simons passed away last week at the age of 86. Simons was largely unknown to the general investing public, by design, but he is regarded on Wall Street as the greatest quantitative investor ever. Indeed, many would crown him as the greatest investor ever, regardless of investment strategy, since his Renaissance Medallion Fund compounded at an astounding rate of return of roughly 40% per year, *after fees*, for more than 35 years. A record unmatched by Warren Buffett, Peter Lynch, or any other investment guru.

Turning to the economic calendar, Federal Reserve governors will be on the road speaking every day this week. The highlight is likely to be on Tuesday when Federal Reserve Chair, Jay Powell, speaks to the Foreign Bankers Association in Belgium. The Producer Price Index (PPI), a measure of wholesale inflation, will be released on Tuesday. The more widely followed Consumer Price Index (CPI), is likely the most important economic report of the week that will be closely scrutinized after its Wednesday release. Retail sales, which provides a pulse on all-important consumer-spending, will also be released on Wednesday.

Two reports on the housing market will be released on Thursday, Housing Starts and Building Permits. Both may help determine if the current housing shortage may be alleviated in the not-to-distant future. The Conference Board's forward-looking Leading Economic Index (LEI) report will be released on Friday. Two months ago, the LEI Index broke a roughly two-year losing streak, but then it fell again last month. Analysts will carefully inspect the current month's report to better understand the recent trend.

Market Scorecard:	5/10/2024	YTD Price Change
Dow Jones Industrial Average	39,512.84	4.84%
S&P 500 Index	5,222.68	9.49%
NASDAQ Composite	16,340.87	8.86%
Russell 1000 Growth Index	3,388.22	11.03%
Russell 1000 Value Index	1,739.61	6.76%
Russell 2000 Small Cap Index	2,059.78	1.61%
MSCI EAFE Index	2,346.16	4.92%
US 10 Year Treasury Yield	4.504%	64 basis points
WTI Crude Oil	\$78.20	9.63%
Gold \$/Oz.	\$2,366.90	14.24%



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