Beacon Trust
INNOVATING WEALTH STRATEGY

February 14, 2022

Beacon Weekly Investment Insights

Last week saw continued volatility in equity markets. It was essentially a tale of two halves of the week whereby we saw volatility receding somewhat in the earlier part of the week, only to return in dramatic fashion during the latter part of the week. The VIX, a widely used index that measures volatility, dropped as low as 19.9 in the earlier part of the week (more in line with long-term historical averages), down from a high for the year of 38 logged on January 24th amidst the market correction. Concomitantly, the S&P 500 rallied in the early part of the week, as did (and to a larger degree) the tech-heavy Nasdaq which had been disproportionately impacted in January due to the ongoing expectation for higher interest rates and inflation. Volatility returned to the market on Thursday with the VIX increasing by roughly 20% to the 23.90 level, and the S&P 500 and Nasdaq shedding -1.81% and -2.10% on the day, respectively. The 10-year Treasury yield also saw a meaningful move, pushing above the psychologically important 2.0% level. The volatility continued on Friday, with the S&P 500 and the Nasdaq ending the week down -1.82% and -2.18%, respectively.

One of the primary culprits for the volatility and the increase in Treasury yields towards the latter part of the week was the release of the most recent CPI (Consumer Price Index) report, which saw inflation readings come in higher than expected. The headline CPI figure reached a 40-year high, increasing 7.5% on a year-over-year basis, vs. expectations for a 7.2% increase. On a month-over-month basis, CPI increased by 0.6%, which also came in above expectations for a 0.4% increase. Increases in energy, shelter, and food prices all continued to contribute to elevated inflation readings.

Core CPI, which strips out energy and food prices, also came in higher than expected, increasing by 6.0% on a year-over-year basis vs. expectations of a 5.8% increase, and increasing 0.6% on a month-over-month basis vs. expectations for a 0.4% increase. The higher than expected inflation data as well as subsequent hawkish comments from the likes of the St. Louis Federal Reserve President James Bullard, drove volatility in equity markets amid higher expectations for the number and magnitude of interest rate hikes the Fed may undergo this year. At the end of the week, the probability of a 0.50% interest rate hike for the March 16th meeting increased to roughly 65%, vs. a roughly 35% chance for a 0.25% increase. A number of firms including Goldman Sachs and Bank of America are expecting 7 successive 0.25% rate hikes in each of the remaining Fed meetings this year. Prior to the CPI report, the consensus expectation was for a 0.25% rate increase in March, and for 4 to 5 interest rate increases in total this year. Although inflation readings may continue to be elevated in coming months, we expect that inflation may moderate as we progress further on in the year as the base effect (comparison to very low figures year-over-year) becomes less of a headwind, supply chain disruptions continue to improve over time, and with the Fed fighting inflation.

Initial jobless claims data last week came in lower than expected, with a seasonally adjusted 223,000 claims for the week ended February 5th, vs. 230,000 expected and 239,000 in the previous week. The claims data fell for the third week in a row, and continues to underscore a tight labor market. Continuing claims, which detail the total number of people receiving unemployment benefits through regular state programs, remained the same at 1.62 million, holding at pre-pandemic levels. The University of Michigan Consumer Sentiment index was also released at the end of last week, which showed consumer sentiment declining meaningfully as concerns over higher inflation led to less in the way of confidence by respondents relative to their financial prospects.

Despite ongoing challenges with higher inflation, labor shortages, and supply-chain disruptions, corporations have showed resiliency in maintaining healthy profit margins through operating efficiencies and the acceptance of higher prices by consumers. 72% of companies in the S&P 500 have reported earnings thus far with earnings coming in roughly 8% above estimates in aggregate, in line with the 5-year historical average. Earnings expectations for the broader S&P 500 have been revised up since the start of the earnings season, with expectations for S&P 500 earnings growth now being 31% year-over-year for the 4th quarter of 2021, and in the high single digits year-over-year for the full year 2022. A number of consumer companies reported earnings last week including Coca-Cola and Chipotle. Both companies beat expectations, with consumers not being meaningfully deterred by higher prices to date. Disney also reported earnings last week, with the stock getting a lift after handily beating expectations amidst strong demand in their parks and experiences business. Disney+ subscriber growth was also a strong point, with the service adding 11.8 million subscribers in the recent quarter compared to expectations for 7 million subscriber additions, and hitting 129.8 million total subscribers.

Geopolitical issues continue to be front and center amidst escalating tensions between Russia and Ukraine. President Biden issued a warning last week that any Americans who remain in Ukraine should leave in earnest. The State Department issued an advisory warning that the U.S. will not be able to evacuate U.S. citizens in the event of Russian military action in Ukraine. The situation unfolding remains a source of uncertainty and volatility for markets, and continues to put upward pressure on oil prices which reached a seven-year high last week.

A number of notable economic reports are on tap to be released this week including the PPI (Producer Price Index) and Empire State Manufacturing Index data set to be released on Tuesday, as well as retail sales data and the release of the FOMC (Federal Open Market Committee) minutes for the most recent meeting on Wednesday. In addition to the weekly jobless claims data, housing starts and the Philadelphia Fed Manufacturing Index data is set to be released on Thursday, with existing home sales and Leading Economic Indicators Index data on tap for Friday.

Market Scorecard:	**2/11/2022**	**YTD Price Change**
Dow Jones Industrial Average	34,738.06	(4.40)%
S&P 500 Index	4,418.64	(7.29)%
NASDAQ Composite	13,791.15	(11.85)%
Russell 1000 Growth Index	2,704.94	(12.03)%
Russell 1000 Value Index	1,613.67	(2.54)%
Russell 2000 Small Cap Index	2,030.15	(9.58)%
MSCI EAFE Index	2,279.33	(2.43)%
US 10 Year Treasury Yield	1.94%	43 basis points
WTI Crude Oil	$92.31	24.85%
Gold $/Oz.	1,807.80	1.75%