Beacon Trust
INNOVATING WEALTH STRATEGY

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Beacon Weekly Investment Insights

The S&P 500 fell 2.3% last week, spurred by Fitch's downgrade of the U.S. government's debt rating from AAA to AA+. A downgrade of U.S. sovereign debt is not unprecedented. Students of market history may recall S&P's downgrade of U.S. government debt in 2011, triggering a stock market correction. It remains to be seen if the current Fitch downgrade will also push stocks into a correction, but the early market reaction seems more benign. Not coincidently, long-term interest rates edged up last week, with the yield on the benchmark 10 Year U.S. Treasury Note moving up from 3.96% to 4.06%. Despite the uptick in interest rates, we have no concerns about a U.S. Treasury default on its debt, especially with the federal debt ceiling recently extended until early 2025.

Last week was an active one for the economic calendar. The unemployment report was released last Friday, falling from 3.6% to 3.5%, near a 50-year low. On the surface this number seems rosy, but nonfarm payrolls rose by only 187,000 versus a consensus estimate of 200,000. Furthermore, prior payroll numbers were modestly downward adjusted, pointing to a somewhat cooler job market, and giving the Federal Reserve more room to pause its longstanding rate hike campaign. The forward-looking Institute for Supply Chain Management (ISM) surveys were also released last week and showed no material changes. That is, the Manufacturing survey continues to suggest contraction, while the Services survey portends a modest expansion. In short, the totality of the economic numbers above suggests no imminent recession, despite continued concerns.

Earnings reports from Q2 are in full swing. Perhaps the two most widely watched earnings reports last week were released by Amazon and Apple. Amazon provided an upside surprise and its stock surged 8% on Friday, during a down day and week for stocks. Amazon's results suggest the consumer is still shopping, perhaps in an attempt to cleverly stave off the ravishes of inflation, and their cloud business continues to show solid growth. Apple's earnings report was more underwhelming, resulting in the iconic consumer company falling almost 7% last week. This dip in Apple's stock price took it below the vaunted $3 trillion market capitalization level. Although Apple's Services unit showed good growth, its iPhone sales were somewhat disappointing, falling over the past year. Both tech titans alluded to forthcoming artificial intelligence (AI) products, almost a prerequisite for technology earnings reports these days.

Berkshire Hathaway, another blue-chip company run by investment legend Warren Buffett, also reported solid earnings over the weekend. Berkshire is one of the few companies that regularly reports earnings over the weekend. Since Berkshire is a large conglomerate, some view it as a proxy for the U.S. economy. Key earnings reports this week will be released by Disney, Eli Lilly, Honda, Saudi Aramco, Sony, and UPS.

The highlight of the economic calendar for the week will occur on Thursday when the latest reading of the Consumer Price Index (CPI) is released. Inflation has been in the headlines for roughly the past 2 years, and it has been trending in a downward trajectory to its most recent reading of 3.0% on an annualized basis. Both financial markets and consumers may cheer continued diminished readings. The CPI's wholesale sibling, the Producer Price Index (PPI), will have its report released on Friday. The PPI has been trending downward at an even greater rate than the CPI. The PPI provides a measure of business inflation that often feeds into future CPI readings, so investors will also be watching that report quite closely.

Other highlights for the week's economic calendar include the Consumer Sentiment Index, which will also be released on Friday. Recent readings have been at recessionary levels but have been moving up, in concert with the falling inflation levels and rising stock market. Since the consumer constitutes roughly 70% of U.S. GDP the report bears watching. There is no Federal Reserve Open Market Committee meeting in August, although some investors will tune into the Fed's Jackson Hole Economic Symposium near the end of the month.

Market Scorecard:	8/4/2023	YTD Price Change
Dow Jones Industrial Average	35,065.62	5.79%
S&P 500 Index	4,478.03	16.63%
NASDAQ Composite	13,909.24	32.89%
Russell 1000 Growth Index	2,777.59	28.70%
Russell 1000 Value Index	1,577.35	5.36%
Russell 2000 Small Cap Index	1,957.46	11.14%
MSCI EAFE Index	2,143.22	10.25%
US 10 Year Treasury Yield	4.060%	+18 basis points
WTI Crude Oil	$82.64	2.65%
Gold $/Oz.	$1,978.20	8.09%

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