

Beacon Weekly Investment Insights

The S&P 500 experienced its best week since February, rising 2.75%, as most domestic equity indexes hit all-time highs. Investors breathed a collective sigh of relief once Fed Chair, Jay Powell, testified to Congress that it would be quite some time before the Fed raises short-term interest rates and that a “taper” of its massive bond purchase program was not imminent. Near the end of the week, it appeared that a bipartisan infrastructure package is on its way to approval in Congress. Specifically, the proposal calls for \$1.2 trillion to be spent over 8 years on bridges, roads, tunnels, water pipes, and broadband internet technology, especially in rural and low-income communities. We have been through many of these budget battles before and as the fabled sports icon Yogi Berra once said, “It ain’t over ‘till it’s over.”

With the first half of the year almost in the books, the S&P is up roughly 14%, a figure that is higher than its historical annual return of about 10%. In fact, most diversified equity indexes are up double-digits, as shown in the table further below. Bonds have remained remarkably stable, in the midst of a robust economy, with the benchmark 10-year Treasury Note yield ensconced in the 1.5% range. Concomitant with the market rally, VIX has fallen to a post-pandemic low of 15. These numbers, and the maximum YTD drop for the S&P 500 of only 4%, suggest a stock market pullback is likely in the months ahead, but they don’t change our current view preferring stocks over bonds.

In company specific news, Microsoft joined Apple in the \$2 trillion market cap club as Growth partially closed the year-to-date performance gap with Value. As the quarter comes to a close, earnings season will soon kick-off in earnest. Earnings are expected to be strong, at least if Nike serves as a bellwether. Nike, a company that reports its earnings “off cycle”, reported blowout numbers propelling its stock to an all-time high. Virgin Galactic became the first firm approved by the Federal Aviation Administration (FAA) to offer space travel for tourists. Interested in getting your astronaut wings or giving a gift for the person that has everything? Be prepared to pony up \$250,000 for the privilege. Regardless of price, a new industry of space tourism is about to be born. Investors noticed too, with Virgin Galactic’s stock soaring roughly 40% on Friday and 135% year to date.

The Federal Reserve gave most large banks a clean bill of health as they released the latest results of their “stress tests.” Banks remain well capitalized despite the pandemic, providing another clue that a double dip recession is probably not in the cards. On the contrary, banks are expected to increase dividends, buybacks, and continue their lending activities unabated.

The first week of the new month always comes with the release of important economic reports. All eyes will be on the unemployment report that will be released on Friday. The number is expected to trend down from last month’s figure of 5.8% and particular focus will be on the labor force participation rate. If the labor force participation rate continues to be lower than expected, there will be continued upward pressure on wages and ultimately on inflation. Speakers from the Federal Reserve will also be active this week, providing signals on future monetary policy. The Case Shiller home price index will be released on Tuesday providing some insight on the red-hot housing market, buoyed by low inventory, rising income, low interest rates, as well as speculation. Lastly, the ISM Manufacturing report, a forward-looking measure of economic growth, will be released on Thursday.

Market Scorecard:	6/25/2021	YTD Price Change
Dow Jones Industrial Average	34,433.84	12.51%
S&P 500 Index	4,280.70	13.97%
NASDAQ Composite	14,360.39	11.42%
Russell 1000 Growth Index	2,706.06	11.46%
Russell 1000 Value Index	1,571.08	16.41%
Russell 2000 Small Cap Index	2,334.40	18.21%
MSCI EAFE Index	2,342.43	9.08%
US 10 Year Treasury Yield	1.536%	62 basis points
WTI Crude Oil	\$74.00	52.83%
Gold \$/Oz.	\$1,781.80	(6.30%)

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