April 18, 2022

Beacon Weekly Investment Insights

Last week was one filled with key economic data that wound up weighing on financial market sentiment. The three major equity indices ended lower in the holiday shortened week with the Dow Industrials down 0.8%, the S&P 500 index down 2.1% and the NASDAQ Composite down 2.8%. Bond yields also rose with the benchmark 10-Year US Treasury ending the week at 2.81%, a rise of 130 basis points on a year to date basis.

As we have mentioned in prior commentaries, a lot of news is converging all at the same time and is quite difficult to digest. At the beginning of the week, we witnessed major lockdowns across important industrial and financial districts within China. The cause is their governments no tolerance policy for COVID outbreaks. This type of shutdown will exacerbate the existing issues with bottlenecks in global supply chains, and contribute to a slowdown in economic growth and inflationary pressures.

Two inflation reports on Tuesday and Wednesday of last week continue to show a multi-decade high level of inflation reaching almost every sector of the economy. Consumer prices (CPI) rose at an annual rate of 8.5%, a 40 year high. Food prices have jumped higher with meats rising 14.8% and breakfast cereals rising at 9.2%. In the coming months, the conflict in Ukraine will likely add to pricing pressure because of the disruptions to wheat and fertilizer exports. Energy also remains volatile, but elevated with WTI crude surpassing $100 per barrel after briefly declining in the prior week. Shelter costs, which includes housing and rent also remains elevated with an increase of 5% year over year. The rise in rates is starting to “cool” the housing market, but overall demand remains strong while supply of new homes remains low. A few bright spots were seen within the reports as pricing was slightly down month over month in the used and new car sectors.

Producer prices (PPI), released Wednesday, increased a record 11.2% in March on a year over year basis. Some of the statistics within this release were striking. Wholesalers reported vegetable prices up 82% over the last year, grains up by 40%, fish and other meats up an average of 23%, and energy costs like gasoline up 60%. The concern here is that producers have been and will continue to push pricing through to the end consumer, which ultimately may negatively affect demand and slow the economy. Consumer spending still drives about two-thirds of economic growth.

The heightened inflation and its persistence will most likely enable the Federal Reserve to be more aggressive when contemplating interest rate increases at upcoming meetings. Chairman Powell has already indicated that May’s meeting will result in a 50 basis point increase in the Fed Funds rate. Other voting members in recent weeks have also commented on this type of rise, possibly at the next 3 or 4 meetings. Interest rate hikes alone most likely will not cool inflationary pressures alone, but we will also need an invigorated global supply chain, and a resolution to the conflict in Ukraine.

We also witnessed the beginning of Q1 corporate earnings season led by global financials like JP Morgan, Citigroup, Morgan Stanley, and Goldman Sachs. The releases were categorized as lackluster and their shares were modestly weaker on the week. Delta Airlines also reported an impressive quarter and continued to highlight strong consumer demand for travel. The next few weeks, we will be commenting on additional earnings releases and paying close attention to corporate outlooks for the remainder of the year.

This week will be more earnings heavy, but also data driven. On Monday we will have a report of home builder sentiment, followed by housing starts and existing home sales on Tuesday and Wednesday. Critical within this data will be the impact on rising mortgage rates, which have risen to exceed 5% on a traditional 30-year mortgage. Thursday we will have new filings for unemployment insurance and Friday, we end the week with S&P Global purchasing managers surveys for both manufacturing and services.

Market Scorecard:	4/14/2022	YTD Price Change
Dow Jones Industrial Average	34,451.23	(5.19)%
S&P 500 Index	4,392.59	(7.84)%
NASDAQ Composite	13,351.08	(14.66)%
Russell 1000 Growth Index	2,635.11	(14.31)%
Russell 1000 Value Index	1,627.85	(1.68)%
Russell 2000 Small Cap Index	2,004.98	(10.70)%
MSCI EAFE Index	2,115.99	(9.42)%
US 10 Year Treasury Yield	2.81%	130 basis points
WTI Crude Oil	$106.95	42.20%
Gold $/Oz.	1,978.24	8.18%

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