

Beacon Weekly Investment Insights

In a week dominated by the headlines of the tragic events unfolding in Israel, the S&P 500 somewhat surprisingly rose 0.5%. Most financial media reports ascribe the gains primarily to the decline in long-term interest rates, a dynamic which usually increases asset prices. Futures markets are also suggesting with a high degree of certainty that the Federal Reserve will not raise short-term rates at their November meeting. A number of Fed governors were on the speaker circuit last week and indicated patience in raising interest rates, given the recent sharp rise in long-term rates and the additional uncertainties resulting from war in the Middle East. Earnings season also kicked off last week, with several large banks reporting better than expected profits, a topic we will circle back to.

Investors cheered the performance of the bond market for a change as interest rates fell. The Bloomberg Barclays Aggregate Bond Index rose 1.0% last week, trimming its year-to-date losses to 1.2%. The yield on the benchmark 10-Year U.S. Treasury Note ended the week at 4.6%, after touching almost 5.0% the week prior. Gold, another safe haven asset, rose a stout 5.4% last week as investors sought some stability with raging wars continuing in at least two continents. The performance of these three asset classes (stocks, bonds, gold) during a turbulent period for the financial markets reinforces two linchpins of Beacon's approach to investing – intelligent diversification and the avoidance of market timing.

Another reason that may have contributed to financial market gains last week was the implications of last week's inflation report. The headline Consumer Price Index (CPI) reading of a 3.7% annualized gain was identical to last month's reading. Declining components in the CPI included energy prices, car prices, and healthcare prices. The Fed prefers to focus on Core CPI, which excludes volatile food and energy prices. Core inflation, which excludes volatile food and energy prices, slowed to 4.1%, its lowest reading since September 2021. Despite stable to moderating inflation, consumer sentiment remains downbeat. The University of Michigan's monthly sentiment survey was released last week and showed readings at a 5-month low and at recessionary levels.

JP Morgan, Citigroup, and Wells Fargo all announced earnings last week. The earnings reports of large banks are always important, but perhaps more so at this time given the uncertain economic outlook. Although each bank has company specific attributes, in general their diversified business models helped them prosper and the loan loss provisions were less than expected, suggesting that the U.S. consumer is not quite ready to fall off the cliff. The investment banking units of the firms generally provided better than expected results, buttressed by an uptick in merger and acquisitions (M&A) activity and in increase in initial public offerings (IPOs). Speaking of which, last week's merger between Exxon Mobil and Pioneer Natural Resources was the largest in the Energy sector since ... Exxon merging with Mobil in 1999. Birkenstock, a European footwear company with a history dating back to 1774, launched their IPO last week with mixed results.

The Retail Sales report will be released on Tuesday, providing a pulse on consumer spending, the backbone of the U.S. economy. Reports on housing starts and building permits will be released on Wednesday, providing some insight on how generational high mortgage rates, in excess of 7.5%, are impacting the housing market. Fed governors will be on the speaker circuit every day this week, with the highlight likely Fed Chair Jay Powell's talk at the Economic Club of New York on Thursday. The Conference Board's Leading Economic Index (LEI) will also be released on Thursday. LEI has declined for 17 months in a row, suggesting that a forthcoming recession cannot be ruled out with a high degree of certainty.

Market Scorecard:	10/13/2023	YTD Price Change
Dow Jones Industrial Average	33,670.29	1.58%
S&P 500 Index	4,327.78	12.72%
NASDAQ Composite	13,407.23	28.10%
Russell 1000 Growth Index	2,740.89	27.00%
Russell 1000 Value Index	1,480.22	-1.13%
Russell 2000 Small Cap Index	1,719.71	-2.36%
MSCI EAFE Index	2,064.71	3.54%
US 10 Year Treasury Yield	4.629%	+75 basis points
WTI Crude Oil	\$87.72	8.96%
Gold \$/Oz.	\$1,945.90	6.33%



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