

Beacon Weekly Investment Insights

After 3 weeks of declines, markets experienced a relief rally last week. The S&P 500 closed the shortened week up 3.6%, with the Nasdaq outpacing and closing up 4.1%. The 10-year treasury also moved up, to close the week at 3.32%. Volatility in oil prices also continued, ultimately closing the week relatively flat at \$86.27/barrel.

Part of what may have contributed to the magnitude of the rally last week in the face of continued hawkish comments from Chair Jay Powell and other Fed officials, was buying from short sellers (those with bearish bets against stocks which benefit when stocks go down) and options dealers that rushed to buy stocks to cover/hedge their bearish positions as stocks moved up. Another contributing factor was likely continued hopes that the Fed may be able to achieve a “soft landing” for the economy, despite aggressively tightening monetary policy to stave off inflation, and the confluence of headwinds that the economy continues to face. A “soft landing” refers to the economy weakening enough to slow hiring and wage growth, and bring inflation down, without moving into a full-blown recession.

Comments from the likes of Goldman Sachs Chief Economist Jan Hatzius last week centered on thoughts that there have been encouraging signs recently in terms of inflation beginning to decline off the back of declining commodity prices, a stronger dollar, and improvement in supply-chain disruptions. Goldman also noted a broadly resilient labor market which is however, showing some signs of slowing in hiring and wage growth and a modest increase in unemployment, suggesting that the labor market may be able to cool down without a spike in unemployment. In addition, they put forward the idea that the U.S. economy may experience slower growth but avoid contraction going forward, with estimates of 1.6% and 1.2% for GDP growth in 2022 and 2023 respectively. All this was with the caveat that Goldman still assigns a 1-in-3 chance of a recession. As we have noted in the past, the economy has already met the threshold for one of the technical definitions of recession, given that 1st and 2nd quarter GDP were both negative.

Ultimately a variety of headwinds for the economy remain present. As we have noted in the past, we do not attempt to predict the timing or duration of a recession, or try to time the market as a result of attempting to make this assessment. We continue to believe that our clients are best served by staying invested in a diversified portfolio that is appropriate for their specific needs and objectives, with a long-term approach in mind, sufficient liquidity on hand, and with the flexibility to be opportunistic in our active strategies.

With the passing of Queen Elizabeth II after 70 years as Britain’s longest-serving monarch, the UK is in the midst of 10 days of mourning. Upon ascending to the throne, King Charles III gave a speech paying tribute to his late mother, alongside an outcry of support from the nation and world leaders. King Charles III takes the helm during a turbulent and uncertain time for Britain, which is in the midst of a severe energy crisis and inflation, has a new Prime Minister in Liz Truss, and amidst on-going uncertainty over potential secession of the four constituent countries of the United Kingdom (England, Northern Ireland, Scotland, and Wales). We continue to monitor these developments closely, along with on-going developments in the Russia/Ukraine war and recent lockdowns in China.

Economic data released last week included the ISM services index, which showed growth in economic activity in the services sector. The index reading came in at 56.9%, against expectations for a reading of 55.5% and up slightly from the prior reading of 56.7%. A reading above 50% on this index signifies expansion. In addition, Chair Powell and several other Fed officials spoke last week, reiterating their focus on combatting inflation by further tightening monetary policy. To that end, the market is currently pricing in close to a 90% probability of another 0.75% rate hike in the upcoming September meeting.

Inflation readings for the month of August are on the docket this week, with the most recent CPI (consumer price index) figures set to be released on Tuesday, and PPI (produce price index) data due out on Wednesday. Retail sales data is due out on Thursday, alongside the Philadelphia Fed and Empire State Manufacturing index data, with the University of Michigan consumer sentiment index reading on tap for Friday.

Market Scorecard:	9/9/2022	YTD Price Change
Dow Jones Industrial Average	32,151.71	(11.52)%
S&P 500 Index	4,067.36	(14.66)%
NASDAQ Composite	12,112.31	(22.58)%
Russell 1000 Growth Index	2,414.49	(21.48)%
Russell 1000 Value Index	1,516.08	(8.43)%
Russell 2000 Small Cap Index	2,245.31	(16.14)%
MSCI EAFE Index	2,336.07	(21.29)%
US 10 Year Treasury Yield	3.32%	180 basis points
WTI Crude Oil	\$90.09	19.78%
Gold \$/Oz.	\$1,728.60	(5.47)%

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