

## Beacon Weekly Investment Insights

The S&P 500 fell 2.1% last week, its third consecutive weekly drop. In aggregate, during the recent pullback, the S&P 500 is down roughly 5% from its recent peak and potentially may be looking at its first correction since last year's bear market. The Magnificent 7 (M7) group of leading technology stocks has not been so magnificent as of late. For example, Apple is down nearly 12% from its peak last month. Other members of the M7, like Tesla, are down by even larger percentages. There was not a single catalyst for the market's drop last week, but rather a mounting list of investor concerns.

During the first week of August, rating agency Fitch downgraded U.S. sovereign debt from AAA to AA+. Last week Fitch threatened downgraded a slew of major banks, including the venerable JP Morgan. Problems emanating out of China continue, with the bankruptcy declaration of troubled real estate giant, Evergrande. The Chinese government also enacted stimulus designed to spur the country's tepid economic growth, but investors seem unimpressed as evidenced by the continued slide in Chinese stock prices. Long-term interest rates continued to march up domestically, with both the 10-Year U.S. Treasury Note and 30-Year U.S. Treasury Bond sporting roughly decade high yields. Specifically, the 10-Year U.S. Treasury ended the week with a 4.25% yield and 30-Year closed with a 4.38% yield. The rise in interest rates and concerns about credit risk have nearly eliminated the year-to-date returns on the benchmark Bloomberg Barclays Aggregate Bond Index.

The earnings season is winding down, with retailers usually the last to report earnings. Overall, the leading big box retailers reported a mixed earnings picture. Walmart, TJX, and Ross Stores reported relatively strong earnings. In contrast, Home Depot and Target reported less sanguine results. A picture is emerging of consumers searching for low prices to combat higher interest rates and stubborn inflation. Mortgage rates averaging over 7% are also putting some pressure on the housing market, which is the bread and butter of firms such as Home Depot and Lowes.

The U.S. economy continues to give mixed signals as well. Although we think a recession beginning in Q3 is quite unlikely, the Conference Board's Leading Economic Index (LEI) dropped for the 16<sup>th</sup> consecutive month. As we have noted in prior writings, the longest period on record which shows a drop prior to a recession was 20 months, so there is a precedent for LEI being (way) too early in its forecast. In contrast, U.S. Retail Sales were up 0.7% month-over-month, a figure higher than consensus estimates. The data shows the U.S. economy is keeping afloat due in part to slowly dissipating excess consumer savings from the pandemic and "revenge spending" from consumers tired of being locked in due to the pandemic. Once the savings dwindle, some analysts have suggested consumers may tap into rising home equity to continue their spending binge, albeit at higher borrowing rates.

The most important event on the economic calendar this week is not an economic report, but rather a speech. Since there is no Federal Reserve Open Market Committee meeting in August, all eyes and ears will be on Fed Chair Jay Powell's talk on Friday at the Jackson Hole Economic Symposium. In the past, Fed Chairs have used this venue to signal meaningful changes in policy, such as Ben Bernanke's famous "taper tantrum" speech in 2013.

Notable economic reports this week include Existing Home Sales on Tuesday and New Home Sales on Wednesday. S&P reports on its purchasing manager indexes (PMI) also on Wednesday, providing a forward-looking outlook on the growth potential of the U.S. economy. The Durable Goods Report, which represents "big ticket" items, will be related on Thursday and the U.S. Consumer Sentiment Report will be finalized on Friday. Each report gives a different perspective on the health of the U.S. economy.

In closing, there is also one earnings report that will be released this week that bears special mention. NVIDIA has been the poster child for artificial intelligence (AI) stocks and the tech firm is set to report their earnings on

Wednesday. If the firm disappoints, technology stocks, and the market as whole, may continue to remain under pressure.

<b>Market Scorecard:</b>	<b>8/18/2023</b>	<b>YTD Price Change</b>
Dow Jones Industrial Average	34,500.66	4.08%
S&P 500 Index	4,369.71	13.81%
NASDAQ Composite	13,290.78	26.98%
Russell 1000 Growth Index	2,694.94	24.87%
Russell 1000 Value Index	1,543.10	3.07%
Russell 2000 Small Cap Index	1,859.42	5.57%
MSCI EAFE Index	2,057.64	5.85%
US 10 Year Treasury Yield	4.251%	37 basis points
WTI Crude Oil	\$81.40	1.11%
Gold \$/Oz.	\$1,918.40	4.82%

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