Beacon Trust
INNOVATING WEALTH STRATEGY

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Beacon Weekly Investment Insights

The most watched economic announcement of last week was the retail sales report, which showed that U.S. shoppers increased their level of spending in October by 1.7% and the year-over-year sales were up 16.3%. This was above the consensus estimates. Part of the increase is due to the higher prices. As we have stated in our commentary last week, the annual inflation rate hit a 30 year high in October. Although consumer confidence about the economy has deteriorated due to fears of rising inflation, consumer purchases accelerated coming out of the pandemic, aided by numerous government pandemic aid programs and enhanced unemployment benefits.

The trend in the latest corporate earnings reports in the retail sector confirmed the health of the most important part of the U.S. economy last week. Both Walmart and Target reported better than expected earnings and stated that the store shelves are stocked with plenty of items ahead of the busy holiday shopping season. However, the big-box retailers warned investors that they are trying to keep their value by keeping prices low and not passing all of the higher input costs to consumers. Stock prices for Walmart and Target weakened despite the solid earnings reports as investors questioned whether there will be an eventual squeeze in profit margins should the retailers decide not to pass all of the higher input costs to consumers. Other retailers such as Macy's and Kohl's are raising prices on the other hand, and their stock prices rallied as investors rewarded them for passing on higher costs and maintaining their profit margins.

The state of the real estate market remains strong, as evidenced by the homebuilder confidence surging past expectations last week. Higher home prices do not appear to be deterring homebuyers. In another sign of the strong housing market, national rents for single-family homes surged 10% in September over the past year as buyers continue to look for more space. Highest priced homes in markets like Miami saw the largest growth, i.e. 25%, one of the highest rent increases in the country. Lastly, Home Depot and Lowe's earnings topped estimates as consumers spend more in home projects amidst the strong housing market.

In other economic news, industrial production rose 1.6% in October, ahead of the 1% estimate and a rebound from the 1.3% decline in September. Capacity utilization also rose to 76.4%, the highest level since December 2019. First-time jobless claims totaled 268,000 and continues to drop each week. Continuing claims also declined by 129,000 to 2.1 million, also a pandemic-era low.

The question on everybody's mind is whether the Federal Reserve will be more aggressive and tighten its monetary policy to fight off inflation. Although there are signs of improvement in semiconductor production to help ease the chip shortage, a reduction in lingering cargo containers off the Port of Los Angeles, and lower oil prices as new Covid lockdowns spark demand concerns, there are also strong signs that inflation problem could get worse before it gets better.

Speaking of the Fed and inflation, Chairman Jerome Powell was re-nominated by President Biden this morning for a second term. Markets liked Powell getting the nod, as he has done a good job during the Covid crisis according to both Democrats and Republicans. Investors also feared that Powell's main competition, Lael Brainard, would introduce new bank regulations, bring a level of uncertainty, and not do enough to fight inflation.

The House of Representatives finally passed the second part of the infrastructure package, the so-called social infrastructure bill, formally known as the Build Back Better Act on Friday, and sent it to the Senate. The current version of the $1.75 trillion plan, which includes universal pre-K, Medicare expansion, renewable energy credits, federal paid leave, higher state and local tax deduction (SALT) and child tax credits will likely get revised in the Senate in the coming weeks.

Global macro risks were in the forefront again last week. There are reports of Russia planning a military escalation with its neighbor Ukraine, which could send shockwaves through the volatile region and especially within the energy markets. The much anticipated virtual summit between President Biden and President Xi also failed to produce any actionable items to improve the tense relationship between the two superpowers, although the two leaders agreed to continue to communicate to make sure that their tight competition does not turn into a major conflict.

On the healthcare front, Austria and Germany imposed tougher public health restrictions as Covid infections spiked up considerably. Covid cases began rising again here in the U.S. as well. CDC approved Pfizer's and Moderna's highly effective booster shots for all adults ages 18 and older who received their two initial shots at least six months ago. Both companies' boosters were previously authorized for the elderly and those people who are at high risk. Pfizer, along with Merck, also applied for the approval of their Covid treatment pills. If the pills are approved, it would make U.S. only the second country in the world, after U.K., to have a pill that can treat Covid patients.

U.S. equity markets finished the week with mixed results as concerns over rising cases of Covid counterbalanced the strong results in the retail and housing markets. The tech-heavy Nasdaq Composite was up 1.2% for the week, helped by good tech earnings during the week, and ended at a record, while the S&P 500 index rose 0.3%, and the Dow Jones Industrial Average declined by 1.4%. Although we are entering a period of historically strong gains in the equity markets, we would like to caution that history does not always repeat itself and markets can always react negatively to a surprise in inflation, sudden change in monetary policy, or disappointing healthcare data.

This week's calendar includes existing home sales on Monday, manufacturing and services PMI (purchasing managers index) on Tuesday, durable goods, consumer sentiment, new home sales, personal consumption expenditures, and FOMC minutes on Wednesday. Retail earnings will continue to trickle in through the week. This short holiday week will end on Black Friday and the indications are that it could be a record-breaking one despite the supply chain setbacks.

We wish everyone a very happy Thanksgiving.

Market Scorecard:	**11/19/2021**	**YTD Price Change**
Dow Jones Industrial Average	35,601.98	16.32%
S&P 500 Index	4,697.96	25.08%
NASDAQ Composite	16,057.44	24.59%
Russell 1000 Growth Index	3,107.40	27.99%
Russell 1000 Value Index	1,612.04	19.44%
Russell 2000 Small Cap Index	2,343.16	18.65%
MSCI EAFE Index	2,344.93	9.19%
US 10 Year Treasury Yield	1.55	63 basis points
WTI Crude Oil	$76.10	56.84%
Gold $/Oz.	$1,851.60	(2.19%)

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