

## Beacon Weekly Investment Insights

We have now watched the conflict in Ukraine for a third week, and we learn with each passing day how much the global economy is intertwined. Prices continue to surge for commodities outside of the energy complex like nickel, aluminum, copper, and wheat. US Government sanctions continue to squeeze the Russian economy as the US now has banned imports of Russian oil, natural gas, and coal. Sanctions by the European Union announced this week curtailing imports in the iron and steel sectors as well as banning exports to Russia of certain luxury goods continue to isolate Russia from the global economy. We continue to hope for a quick diplomatic resolution to this most unfortunate conflict.

Last week's major economic release in the US came Thursday with the release of the Consumer Price Index for February, which rose 7.9% year over year. Core inflation, which strips out the more volatile food and energy components rose at a 6.4% pace. The general concern with these figures not only is the size of the increase, but timing wise, most of the recent jump in commodity prices have not yet reflected in this data. Our expectation for inflation to moderate this spring and early summer will now be pushed out to later in the year. Escalating inflation is causing many major firms to cut their previous growth estimates for the major economies with some predicting recession in Europe. If the conflict does not come to an end within the coming weeks, we will likely start to see evidence of "demand destruction" as a result of inflation. This simply means global consumers will slow down their purchasing, resulting in economic weakness. Inflation is also dampening consumer sentiment as the University of Michigan's index dropped to 59.7, the lowest reading dating back to 2011.

When we analyze the data within the CPI index, there is not much that we find that has stabilized. Gasoline prices increased 6.6%, groceries rose 1.4% and housing rental costs were up 4.7% from their prior month's readings. Supply chain issues are still evidenced in the auto, appliance, and technology markets. A recent COVID spike in China has caused the city of Shenzhen, a major industrial city, to close for at least one week. Remember, China still has very strict zero tolerance COVID policies in place.

On the employment front, the US continues to have 11.3 million job openings at the end of January as reported by the Labor Department. Separate private sector data shows 10.8 million at the end of February. Compared to February 2020, jobs are rising fastest in manufacturing, hospitality, education, and healthcare services, a sign that the largest part of the US economy remains on solid footing.

Last week, the European Central Bank announced plans to end their stimulative bond buying program sooner than expected which paves the way for interest rate hikes later in the year. This puts the ECB in line with the US Federal Reserve which ended their bond buying program last week and is poised for the first hike in the Fed Funds rate when they meet on Tuesday and Wednesday of this week. Our expectations, guided by Chairman Jay Powell, are for a rise by 0.25% to a range of 0.25%-0.50%, to be announced on Wednesday. This will most likely be the first rate hike in a series of hikes as we progress throughout the year. Some firms call for as many as 7 hikes this year, however, given the expected slowdown due to the Russia/Ukraine conflict, expectations have moderated to about 4 hikes.

The event on everyone's radar this week will be the Federal Reserve's press conference at the conclusion of their 2 day meeting on Wednesday. As noted earlier, expectations are for a 0.25% increase in short-term interest rates. On the calendar for Tuesday, we will have the Bureau of Labor Statistics releasing the February Producer Price Index, expected to show a 10% year over year increase. Wednesday, retail sales data will be released along with National Association of Home Builders housing market index. We will conclude the week on Friday with the

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Conference Board's leading Economic Index and the report of existing home sales from the National Association of Realtors.

<b>Market Scorecard:</b>	<b>3/11/2022</b>	<b>YTD Price Change</b>
Dow Jones Industrial Average	32,944.19	(9.34)%
S&P 500 Index	4,204.31	(11.79)%
NASDAQ Composite	12,843.81	(17.90)%
Russell 1000 Growth Index	2,654.71	(18.02)%
Russell 1000 Value Index	1,588.33	(5.94)%
Russell 2000 Small Cap Index	1,979.67	(11.83)%
MSCI EAFE Index	2,053.78	(12.08)%
US 10 Year Treasury Yield	2.00%	49 basis points
WTI Crude Oil	\$109.33	45.37%
Gold \$/Oz.	1,988.46	8.74%

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