Beacon Trust
INNOVATING WEALTH STRATEGY

October 25, 2021

Beacon Weekly Investment Insights

Oil prices continued their upward climb last week with the benchmark West Texas Intermediate (WTI) crude oil reaching $84 per barrel on Friday, putting oil's year-to-date gain at a whopping 73%. While energy stocks make up only 3% of the U.S. equity markets, the relentless rise in commodity prices, driven by limited inventories and high demand, could lead to weakness in ancillary industries such as the transportation sector as well as a possible cutback in consumption.

The first ever bitcoin ETF was launched last week by ProShares and the investor enthusiasm for the fund and the underlying digital currency pushed the bitcoin price to an all-time high above $66,000, surpassing the previous high of $65,000 in April. Bitcoin's history of extreme volatility coupled with opaqueness of the regulatory risk make us somewhat cautious over the short-term to join the bandwagon, although we expect the adoption of cryptocurrencies to increase and some of the speculative elements that push prices to record highs to dissipate. It is then that we would look to establish a fundamental basis for an investment in our portfolios.

Political deal making was on stage again last week as Democrats held meetings to find ways to reduce the $3.5 billion price tag of the social infrastructure program to $1.5 - $1.9 trillion range that could win every Democratic lawmaker's endorsement, centrist and progressive. On the chopping block are free community college, renewable energy program and strengthened child tax credit. Alongside these cuts are the possible elimination of some of the tax hikes under consideration such as higher corporate tax rates, higher individual income tax rates, and higher capital gains tax rates.

On the economic front, September industrial production was reported on Monday, which showed a 1.3% decline. Factory production declined as a result of the lingering effects of Hurricane Ida. Housing starts were down 1.6% in September to a seasonally-adjusted annual rate of 1.56 million units. While new home construction remains robust compared to pre-pandemic levels, builders continue to struggle with higher labor and materials costs. Sale of existing homes continued to increase to an annualized rate of 6.3 million units though, as mortgage interest rates remain low by historical standards. Initial jobless claims and continuing claims both fell to pandemic-era lows, 290k and 2.48m, respectively, indicating that the U.S. is edging closer to a normalization in the labor markets.

The Purchasing Managers Index (PMI) was reported on Friday for both the manufacturing and the services sectors. October PMI for the manufacturing sector came in at 59.2, a bit of a miss and lower than September's 60.7 reading, although still in the expansionary mode. Services sector, which makes up a much larger portion of the U.S. economy, was better than expected at 58.2 and much better than last month's reading of 54.9. The composite PMI, which combines the manufacturing and services sectors, stands at 57.3, also higher than the prior month's reading of 55.0, signaling robust economic activity overall.

Following the authorization of Pfizer booster shots last month, the Food and Drug Administration (FDA) and Centers for Disease Control and Prevention (CDC) also approved Moderna and J&J vaccine boosters last week, which have shown high efficacy rates. The regulators also allowed "mixing and matching" the 3 vaccines in the market today. The additional vaccines can now be distributed to the eligible people such as elderly and adults with underlying medical conditions. We also expect lower doses of the vaccines to be approved for 5-11 year-olds over the next few months based on promising studies that show that they are safe and effective for young kids.

We are in the middle of the third-quarter earnings season and corporate earnings are on track to post a 30-35% increase over the third quarter of last year, which is more than double the 5-year average earnings growth rate of 12%. The biggest theme in earnings reports is the impact of supply chain disruptions and higher input costs on corporate profitability. Most companies revised their earnings guidance as a result of issues like congested seaports and labor shortages.

Financial markets finished the week at or near all-time highs, climbing the wall of worries that include inflation, Covid variants, supply chain hiccups, the real estate crisis in China, and the Federal Reserve getting ready to remove some elements of the easy monetary policy. On the month, S&P 500 and Dow Jones Industrial Average are up 5%, while the Nasdaq Composite is up 4%.

This week we will see 30% of the S&P 500 companies reporting, including Big Tech (Apple, Microsoft, Alphabet, Amazon, Facebook), General Electric, General Motors, Kraft Heinz, and Colgate-Palmolive, as well as one-third of the companies in the Dow, including Caterpillar, Boeing, Merck, Coca-Cola, Chevron and McDonalds. We will be watching very closely to see if there is any disappointing news, especially in the technology sector, after Intel and Snap missed on their earnings last week.

We will also keep a close eye on the economic reports of this week, which include Case-Shiller home price index, new home sales, and consumer confidence on Tuesday, durable goods orders on Wednesday, third-quarter GDP report on Thursday, and Federal Reserve's preferred inflation measure, personal consumption expenditures (PCE) deflator on Friday. Hopefully the financial markets will not be spooked ahead of the Halloween weekend!

Market Scorecard:	**10/22/2021**	**YTD Price Change**
Dow Jones Industrial Average	35,677.02	16.57%
S&P 500 Index	4,544.90	21.00%
NASDAQ Composite	15,090.20	17.08%
Russell 1000 Growth Index	2,921.46	20.34%
Russell 1000 Value Index	1,627.99	20.63%
Russell 2000 Small Cap Index	2,241.63	13.51%
MSCI EAFE Index	2,338.59	8.90%
US 10 Year Treasury Yield	1.64%	72 basis points
WTI Crude Oil	$83.76	72.63%
Gold $/Oz.	$1,796.30	(5.11%)

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