

## Beacon Weekly Investment Insights

Stocks continued their splendid run, with the S&P 500 increasing 3.3% last week. It was the fourth consecutive week of gains for the S&P 500, cutting its year-to-date losses to roughly 10%. This latter number puts the S&P 500 at the threshold of “correction” territory, trimming its recent bear market losses by more than half. Solid earnings and perhaps a peak inflation number were among the reasons for investor enthusiasm. Long-term interest rates continued to hover below the psychologically important 3% level, with the benchmark 10-Year Treasury Note ending the week at 2.85%. Although we believe it is a bit too soon to say that stocks are off to the races for the foreseeable future, the change in psychology from one of rampant pessimism to one of cautious optimism is a welcome change.

Ordinarily, an 8.4% increase for the Consumer Price Index (CPI) would be a cause of great alarm. However, when it comes on the heels of a 9.1% CPI print from the prior month, it was reason for celebration. Some [studies](#) find that equity markets tend to rally once inflation has peaked, spurring some cash to come off the sidelines. What is clear, however, is that the Federal Reserve must continue on its path of raising short-term interest rates and shrinking its balance sheet. As we have discussed in prior writings, the Fed has a dual mandate, low unemployment and modest inflation. The unemployment rate recently fell to 3.5%, the lowest since February 2020 and also near a 50 year low. Clearly, the Fed gets more than a passing grade on this accord. However, the Fed’s target for the rate of inflation is a mere 2%, a far cry from the 8.4% figure cited above. In short, the Fed still has work to do in order to tame the inflation beast.

It is near the tail end of earnings season, but the reports, on balance, continue to be more favorable than expectations. Disney was among the blue-chip stocks leading the charge with a strong earnings report last week. The firm appears to be clicking on all cylinders with its theme park, movie, TV, and streaming units all turning in solid performance. Disney is following suit with other large streaming providers, such as Netflix, by announcing a less expensive streaming option with commercials. Separately, consumers are breathing a sigh of relief with gas prices at the pump falling for the eighth straight week. Falling gas prices and rising stock prices were among the factors that resulted in a modest increase in the widely followed University of Michigan’s Consumer Sentiment Survey.

House Speaker Nancy Pelosi’s visit to Taiwan last week angered China’s government, but the financial market seemed to take the events in stride despite some saber rattling by Chinese military forces. Speaker Pelosi’s visit was the first to Taiwan by a current U.S. House Speaker since that made by Newt Gingrich in 1997. The evolution of the U.S. -China relationship is perhaps the most important macro risk factor over the next decade, given the size of the world’s two biggest economies. The war between Russia and Ukraine is neither gone nor forgotten. Grain shipments from Ukraine have continued to increase, easing the global food shortage that spread well beyond the war’s borders.

A number of economic reports will be released this week. The Industrial Production report is a sign of business health and will be released on Tuesday. The Retail Sales report is a sign of consumer health and will be released on Wednesday. The Conference Board Leading Economic Index® (LEI), a forward-looking indicator on economic health, will be released on Thursday. LEI is expected to show a decline for the 5<sup>th</sup> consecutive month and is potentially a harbinger for a recession. A number of Federal Reserve executives will be on the speaker circuit this week. Since the next Federal Open Market Committee (FOMC) meeting is in late September, the remarks may generate more interest than usual. Specifically, Fed Governor Michelle Bowman will be speaking on Wednesday, Kansas City Fed President Esther George and Minneapolis Fed President Neel Kashkari will be speaking on Thursday, and Richmond Fed President Tom Barkin will be speaking on Friday. The last two weeks of August tend to be benign for business news flow since the earnings season has largely been completed and personal vacations slow down business activities, but geopolitical risks are ever present and may result in increased volatility.

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<b>Market Scorecard:</b>	<b>8/12/2022</b>	<b>YTD Price Change</b>
Dow Jones Industrial Average	33,761.05	(7.09)%
S&P 500 Index	4,280.15	(10.20)%
NASDAQ Composite	13,047.19	(16.60)%
Russell 1000 Growth Index	2,573.43	(16.31)%
Russell 1000 Value Index	1,574.55	(4.90)%
Russell 2000 Small Cap Index	2,016.62	(10.19)%
MSCI EAFE Index	1,963.88	(15.93)%
US 10 Year Treasury Yield	2.849%	134 basis points
WTI Crude Oil	\$91.88	21.78%
Gold \$/Oz.	1,818.90	(0.63)%



**163 Madison Avenue, Suite 600 | Morristown, NJ 07960 | 973.377.8090 | BeaconTrust.com**

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