Beacon Trust
INNOVATING WEALTH STRATEGY

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Beacon Weekly Investment Insights

The bear on Wall Street continued its growl after the Fed raised interest rates by 0.75% last week. The S&P 500 fell 5.8%, its worst weekly decline since the onset of the COVID pandemic in March of 2020. The catalyst for the sharp drop was the Fed's increasingly hawkish stance on inflation, which has increased the odds of a recession by year end or in 2023. Not to be outdone, the European Central Bank held an "emergency" meeting, sketching out its own plan for raising interest rates across the ocean. U.S. stocks fell ten out of the past eleven weeks, further sapping the confidence of many investors who are already grappling with record food and energy prices. In yet another sign of the "risk off" mentality on Wall Street, Bitcoin recently plunged to less than $20,000 per coin, down dramatically from a peak value of almost $70,000 a little over six months ago.

Although history rarely repeats itself exactly, we have communicated in our prior writings that the closest analogy to the current market occurred in the early 1980's when the Federal Reserve aggressively raised interest rates to tame out of control inflation. The Fed policy back then resulted in a "double dip" recession in 1980 and 1982 and set off a bear market that resulted in approximately 30% drop for the S&P 500. Currently, the S&P 500 is down approximately 22% from its peak.

Longer-term interest rates took the Fed's cue and increased as well. The benchmark 10-Year Treasury Note nearly hit 3.5%, its highest level since 2011. The rise in long-term rates has also dented the mortgage market, with the average 30-year mortgage rate in the ballpark of 6%. The surge in average mortgage rates of 0.5% last week, was the highest weekly gain since 1987. In plain English, the dramatic rise in mortgage rates has increased the financing costs of the typical home by roughly 25% since the beginning of the year. It is inevitable that these types of dramatic shifts will eventually cool off the hot real estate market, although we believe price declines will not be as severe as that which occurred in the period near the Great Recession in 2007-2009.

We have largely completed earnings season, although a fresh round of earnings report will kick off in a few weeks. Revlon was among the first casualties of the slowing economy and declared bankruptcy last week. Elon Musk held a town hall meeting with Twitter employees, keeping hope alive regarding his takeover offer for the iconic social media firm. Oil prices and stocks came off their highs, although the price at the pump is still way too high for most consumers, exacerbated by constraints in refining capacity. Oil closed last week at approximately $109 per barrel, down from its peak of $130 a barrel a few months ago.

The economic calendar is fairly light this week, especially since the financial markets were closed on Monday in recognition of the Juneteenth holiday. Several Fed governors will be on the speaker circuit this week to provide further color to their remarks that emanated from last Wednesday's press conference. The highlight may be on Thursday when Fed Chair, Jay Powell, testifies on monetary policy at House Financial Services Committee. Fed governors, Jim Bullard of St. Louis and Mary Daly of San Francisco will also be on the speaker circuit this week. S&P Markit has their own forward-looking Purchasing Managers Indexes (PMI) distinct from those produced by the Institute for Supply Chain Management (ISM). Markit's manufacturing and services indexes will be released on Thursday, providing a glimpse if we are truly on the precipice of a recession. The University of Michigan will release the final version of their consumer sentiment index. Regardless of the changes in the sentiment index, we still expect a gloomy reading. At some point consumer and investor sentiment will bottom, setting the stage for the next bull market.

Market Scorecard:	6/17/2022	YTD Price Change
Dow Jones Industrial Average	29,888.78	(17.75)%
S&P 500 Index	3,674.84	(22.90)%
NASDAQ Composite	10,798.35	(30.98)%
Russell 1000 Growth Index	2,133.84	(30.61)%
Russell 1000 Value Index	1,389.97	(16.05)%
Russell 2000 Small Cap Index	1,665.69	(25.81)%
MSCI EAFE Index	1,823.08	(21.96)%
US 10 Year Treasury Yield	3.239%	173 basis points
WTI Crude Oil	$110.48	46.43%
Gold $/Oz.	1,841.90	0.61%

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