Beacon Trust
INNOVATING WEALTH STRATEGY

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Beacon Weekly Investment Insights

Despite a rally in equity markets that market pundits noted began on Thursday afternoon, all major indices finished another week in the red. The S&P 500 index nearly touched bear market territory, defined as a decline of 20%, prior to rallying into Thursday's close. Despite a broad rally on Friday, for the week, the Dow declined 2.1%, the S&P declined 2.4% and the NASDAQ Composite dropped by another 2.8%. While many search for clues of a bottom, we remind clients consistently that the search for a bottom is a perilous investment philosophy. Timing the markets is simply not possible.

Financial metrics are certainly more historically reasonable now than at the beginning of the year. As we wrap up first quarter corporate earnings release season, we find a forward P/E multiple of about 17 x earnings as opposed to a lofty 21.5 times to begin the year. Within the index, nine of the eleven sectors have P/E multiples below their 5 year average. About 90% of the S&P 500 companies have reported earnings, and Q1 growth stands at 10% year over year against revenue growth of 14.2%. The energy sector is the leader in terms of earnings growth based upon the rapid rise in commodity prices and refined products.

Economic data released in focus during the week centered around inflation. Wednesday, the consumer price index actually slowed year over year, but still remains at 8.3%, down from 8.5% in the previous month. The core rate, which excludes food and energy prices also declined to 6.2% from 6.5%. While moving in the right direction, the readings were still above expectations and show that inflation will most likely stay elevated for some time to come.

On the wholesale side, producer price index rose 11% year over year, down from 11.5% last month, but still above expectations. Generally, most analysts and economists believe that supply chain issues are a primary cause of this inflationary pressure. China's zero tolerance COVID policy has resulted in some important manufacturing regions to be completely shut down as they battle rising (but still very low) COVID cases. Additionally, the conflict in Ukraine is also putting sharp pressure on both agriculture and energy process. We await more government proposals to hopefully mitigate some of the pressures, but true resolution will only come with the easing of China's policies and a resolution to the war in Ukraine.

On the policy front, we are at the beginning of a Federal Reserve interest rate cycle that is directly targeted to reduce inflationary pressures. They are also reducing the size of their balance sheet by not reinvesting in maturing US Treasuries and mortgage backed bonds that were purchased in support of the economy during the COVID induced economic shutdown. These measures will act to drain liquidity from the economy which in turn should reduce inflation. Currently, the FOMC plans on 50 basis point incremental rises in the Fed Funds target rate throughout their scheduled meetings through September. Their goal is to navigate a "soft-landing" in the economy which is characterized as slowing growth, reducing inflation, and not causing an economic recession. On Friday, comments by Chair Powell indicated that the Fed would be sensitive to troubling economic data when considering future interest rate hikes.

This coming week will focus more on the strength of the consumer with economic data releases. The Census Bureau will release retail sales data on Tuesday, which is expected to have risen by 0.4% We will also have corporate earnings releases from a variety of retailers during the week as well such as Home Depot, Lowes, Target, TJX Companies and Ross Stores. Also Tuesday, we will have the release of the National Association of Home Builder's Housing Market index. This is expected to decline slightly since 30 year fixed rate mortgage rates have eclipsed 5% for the first time since 2011. Other data to come out regarding housing will be residential construction figures as well as existing home sales. Finally on Thursday, the Conference Board will release their index of Leading Economic Indicators for April.

Market Scorecard:	5/13/2022	YTD Price Change
Dow Jones Industrial Average	32,196.66	(11.40)%
S&P 500 Index	4,023.89	(15.57)%
NASDAQ Composite	11,805.00	(24.54)%
Russell 1000 Growth Index	2,342.08	(23.83)%
Russell 1000 Value Index	1,520.79	(8.15)%
Russell 2000 Small Cap Index	1,792.67	(20.16)%
MSCI EAFE Index	1,909.42	(12.94)%
US 10 Year Treasury Yield	2.92%	141 basis points
WTI Crude Oil	$110.43	46.83%
Gold $/Oz.	1,811.10	(0.96)%

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