

## Beacon Weekly Investment Insights

Stocks fell for the third week in a row as the reality of higher interest rates, soaring inflation, and a sluggish economy began to take hold. On Friday, the Dow Jones Industrial Average suffered its biggest drop since October 28, 2020, falling 981 points, or 2.8%. Not only is the likelihood of a 50 basis point rise on the horizon for May, but some strategists are also counting on 0.75% hikes for both June *and* July from The Fed. The potential pace of interest rate increases caught many investors off guard and is one reason for the steep decline in stocks in recent weeks.

The benchmark 10 Year U.S. Treasury Note almost touched 3.0%, the highest level since October 2018. Although this level of interest rates is quite normal in the context of long-term history, it does result in sticker shock and make it more expensive to finance a car, home, business project, and a host of other long-term activities. The ongoing computer chip and supply chain problems exacerbate inflation pressures as businesses sell their shrinking inventories at ever higher prices. Inflation and interest rates are tied at the hip, aggravating the rising rate problem.

Earnings season is always a mix of hits and misses. However, the current round of earnings reports appears less robust than the past few quarters. To wit, Netflix plummeted roughly 35% last Wednesday. The pandemic darling is battling increased competition and weak consumer demand, amidst its first decline in subscriber growth since 2011. Verizon, the blue-chip telecom firm that is a member of the Dow Jones Industrial Average, also reported disappointing earnings, citing the deleterious impact of inflation on consumer spending. Even healthcare firms are not immune to the ravages of inflation. HCA Healthcare, one of the largest hospital chains in the U.S., fell roughly 22% on Friday, citing wage inflation and a worker shortage as the primary culprits.

The Elon Musk Twitter saga is far from over, with Mr. Musk claiming (again) that “funding is secured” for his proposed acquisition. The ball is now in the court of Twitter’s Board of Directors, which could accept Elon Musk’s bid as early as today. Tesla, another high profile Elon Musk company, was one of the few earnings standouts, rising almost 10% at one point last Wednesday on blowout earnings. Despite the strong earnings, Tesla is grappling with a COVID related lockdown in China, which is affecting production in its Shanghai factory. China’s continued zero tolerance policy for COVID and its resultant impact on the global economy is yet another brick in the proverbial wall of market worry.

The economic calendar is somewhat light this week as the month comes to a close. The S&P Case-Shiller Index of home prices will be released on Tuesday. Mortgage rates have surpassed 5%, the highest level in *twelve* years. Case-Shiller is a lagging index, but we expect to see the rate of home price appreciation slow markedly from its red hot double-digit levels over the past year. The Conference Board will release its U.S. Consumer Confidence Report on Tuesday. Confidence is near a post-pandemic low, so a rosy outlook is unlikely, but we will analyze the report for material changes in sentiment given that consumer spending constitutes almost 70% of U.S. GDP. The Personal Consumption Expenditures (PCE) Index, a companion inflation gauge to the Consumer Price Index (CPI), will be released on Friday. The consensus estimate is for a 0.6% month over month increase, or 7.2% annualized. As the month comes to a close we hope the market’s April showers to turn into the equivalent of May flowers.

<b>Market Scorecard:</b>	<b>4/22/2022</b>	<b>YTD Price Change</b>
Dow Jones Industrial Average	33,811.40	(6.95)%
S&P 500 Index	4,271.78	(10.37)%
NASDAQ Composite	12,839.29	(17.93)%
Russell 1000 Growth Index	2,535.88	(17.53)%
Russell 1000 Value Index	1,594.52	(3.70)%
Russell 2000 Small Cap Index	1,940.66	(13.57)%
MSCI EAFE Index	2,204.09	(10.88)%
US 10 Year Treasury Yield	2.906%	139 basis points
WTI Crude Oil	\$101.75	34.86%
Gold \$/Oz.	1,932.50	5.57%

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