

Beacon Weekly Investment Insights

Stocks opened the year on a down note, with the S&P 500 falling 1.7% during the first week of 2022. This mild drop masked some turmoil beneath the surface. Value stocks remained above water, rising 1.1%, while growth stocks plunged, falling 4.5%, as measured by the Russell 1000 Indexes. Looking at winners and losers across the sector level, Energy (+10.61%) and Financials (+5.36%) led the rally, while REITs (-5.00%), Tech (-4.69%), and Healthcare (-4.65%) led to the downside.

Of course, the continued spread of the COVID-19 Omicron variant has investors and public health officials concerned, but perhaps the bigger reason for the market's decline was the spike in long-term interest rates, with the benchmark 10 Year Treasury Note rising from 1.51% to 1.77% over the course of the week. What caused the spike? The minutes from the latest Federal Open Market Committee (FOMC) meeting revealed a more hawkish Fed than from its prior meetings. The Fed has acknowledged its mistake in labelling inflation as transitory and is now grappling with how to tame the inflationary beast without sending the somewhat fragile economy into a new recession.

As noted above, the rise in interest rates has disproportionately affected growth stocks. Since the bulk of growth stocks get their earnings far into the future, when investor's discount them back to the present under the current interest rate regime, the price investors will pay for these earnings shrink in value, ergo the marked decline in growth stocks. Some investors are asking if we have seen this movie before, as recently as last year around the same time. However, in 2021 interest rates gradually fell after the initial spike in 2021Q1. Our sense is that this time may be a bit different since the Fed *will* tighten in 2022, but we will have to see how the earnings stories play out. Speaking of earnings, we are still a week or two away from the torrent of earnings reports from 2021Q4, and the closely watched guidance for the year ahead. Each company will reveal the extent to which COVID and inflation remains a problem for their particular business.

The economic calendar is fairly active this week. All eyes will be on the Consumer Price Index (CPI) report that will be released on Wednesday. Inflation is expected to remain at heightened levels, with some estimates in the neighborhood of 7%, a threshold which may further accelerate the Federal Reserve's pace of tightening its monetary policy. The Producer Price Index (PPI) report, a measure of wholesale inflation, will be released on Thursday. Last month's reading hit an alarming 9.6% annualized rate, the biggest reading in the eleven-year history of the report. Continued elevated readings for either measure could continue to roil the markets. Rounding out the week on Friday, we have the Retail Sales report, as well as the preliminary Consumer Confidence report produced by the University of Michigan. Both measures will provide a glimpse to what extent the latest Omicron variant and soaring inflation numbers has impacted the consumer.

Market Scorecard:	1/7/2021	YTD Price Change
Dow Jones Industrial Average	36,231.66	(0.29)%
S&P 500 Index	4,677.03	(1.87)%
NASDAQ Composite	14,935.90	(4.53)%
Russell 1000 Growth Index	2,926.73	(4.82)%
Russell 1000 Value Index	1,668.13	0.75%
Russell 2000 Small Cap Index	2,179.81	(2.92)%
MSCI EAFE Index	2,328.99	(0.30)%
US 10 Year Treasury Yield	1.771%	26 basis points
WTI Crude Oil	\$78.94	3.24%
Gold \$/Oz.	\$1,796.50	(1.86)%

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