

Beacon Weekly Investment Insights

Stocks fell for the third week in a row, still suffering from the aftershocks of Fed Chair, Jay Powell's, hawkish speech at Jackson Hole, WY on August 26th. Powell made it clear in his speech that the Fed will keep raising interest rates and shrinking its balance sheet, a process known as quantitative tightening (QT), until inflation is under control. This process will likely take several months, if not much longer. The S&P 500 fell 3.3% last week, with Growth stocks, in general, suffering steeper losses than Value stocks. Long-term interest rates continued to rise, with the benchmark 10 Year Treasury Note ending the week at a yield of 3.2%.

The unemployment report from last week garnered significant market attention, especially since it is one of the indicators of a possible recession. The unemployment rate ticked up from 3.5% to 3.7%, but the headline number did not tell the full extent of the story since 315,000 jobs were added to the U.S. economy. The labor force participation rate (i.e., the percentage of the labor force that is working or actively looking for a job) increased from 62.1% to 62.4%, slightly easing the labor shortage that is impacting many industries, especially those in the service sector.

In company specific news, NVIDIA was among the leading firms in the financial headlines last week. They reported that the U.S. government may restrict the sales of its artificial intelligence (AI) chips to China for national security reasons. AI is an important growth engine for NVIDIA, but the news is yet another sign of the growing Cold War between the U.S. and China. A thawing of the frosty relationship may occur at a scheduled meeting between Presidents Biden and Xi in November, but markets are currently focused on the saber rattling between the two economic superpowers over the future of Taiwan and trade relations.

As we enter the historically volatile September-October period, we want to remind clients that the market turbulence experienced over the past few weeks is likely to continue, if not increase. Sharp market drops are unsettling, but they may present a buying opportunity for long-term investors. Diversification across several assets classes is usually the best way to navigate volatility. We also encourage clients to keep between one and two years of their living expenses in assets of short-duration, high quality fixed income securities to provide them with peace of mind when equity markets experience large losses. Consistent market timing is almost impossible, since investors must determine the proper time to sell and when to re-enter, and (taxable) clients must also overcome the tax burdens of active trading.

The economic calendar is somewhat light this week, following the long Labor Day Weekend. A total of five Federal Reserve Governors will be on the speaker circuit from Wednesday through Friday, paving the road for a rate hike of *at least* 0.5% later this month. The highlights will be Vice Chair Lael Brainard's speech on Wednesday and Jay Powell's speech on Thursday. The Institute for Supply Chain Management (ISM) Service's Index will be released on Tuesday. It is expected to project continued growth keeping a formal recession at bay, at least for the time being. It comes on the heels of the ISM Manufacturing Index which was released last week and suggested continued economic growth. The weekly jobless claims number will be released on Thursday, which will feed into next month's unemployment report.

Market Scorecard:	9/2/2022	YTD Price Change
Dow Jones Industrial Average	31,318.44	(13.81)%
S&P 500 Index	3,924.26	(17.66)%
NASDAQ Composite	11,630.86	(25.66)%
Russell 1000 Growth Index	2,320.52	(24.54)%
Russell 1000 Value Index	1,462.59	(11.66)%
Russell 2000 Small Cap Index	1,809.75	(19.40)%
MSCI EAFE Index	1,823.46	(21.94)%
US 10 Year Treasury Yield	3.193%	168 basis points
WTI Crude Oil	\$88.38	17.15%
Gold \$/Oz.	\$1,723.50	(5.88)%

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