Beacon Trust
INNOVATING WEALTH STRATEGY

October 4, 2021

Beacon Weekly Investment Insights

To say that the last week of the third quarter was quite a busy week for the economy, financial markets, the government, and the healthcare sector would probably be an understatement.

The week started with the durable goods orders, which include big-ticket items such as automobiles, appliances, electronics and furniture on Monday, and they were up 1.8% in August, higher than expected. Strong demand persisted as factories struggled with shortages in parts and labors as well as higher materials costs.

Consumer confidence, as measured by the Conference Board, a non-profit research organization, showed on Tuesday the third consecutive decline during the month of August. Continued worries about the Covid-19 cases and expectations of higher inflation ahead led to lower consumer confidence. Weekly jobless claims also rose more than expected last week to 362,000, an increase of 27,000 from the previous week and above the 225,000 consensus estimate.

Offsetting these lower readings was a record high in home prices over the past 12 months, as reported by the S&P Case-Shiller home price index. The national index showed that home prices surged by 20% for properties closed in July compared to a year ago. This was the largest gain on record and it surely creates a positive “wealth effect” for U.S. homeowners, although it prices out many new home buyers across different housing markets.

Financial markets turned volatile last week after interest rates inched higher as investors questioned whether the higher inflation numbers will be with us for a while longer than anticipated and how soon the Federal Reserve might tighten its monetary policy to guard against high inflation.

Fed chairman Jerome Powell stated in a hearing last week that he sees current inflationary pressures continuing into 2022. Core personal consumption expenditures price index (PCE), a key inflation measure watched closely by the Fed that excludes food and energy prices, hit a 30-year high last week, up 3.6% from a year ago. Inflation is running hotter than Fed’s 2% long-term goal due to supply bottlenecks and strong demand associated with the reopening of the economy. Fed members expect the inflationary pressures to decline back to the pre-Covid levels next year as supply and demand reach an equilibrium again.

Adding to the market volatility, Washington was in dysfunction as the lawmakers struggled to form a consensus behind the scenes on the government funding bill, the debt ceiling, and the two infrastructure packages. Shutdown of the federal government was avoided as the Congress passed a stopgap funding bill on the last day of the fiscal year to keep the government running through December 3rd. Without the legislation, thousands of federal employees would have been furloughed and certain government services such as the Social Security payments would have been suspended.

While one government crisis has been averted for now, lawmakers will have to tackle another one, the debt ceiling, over the coming weeks to avoid a default on U.S. bond obligations. Treasury Secretary Janet Yellen told Congress that the Treasury has only 2 weeks of resources left before the federal debt ceiling must be suspended or raised. The pressure is now on Congress to address the debt ceiling concern before October 18th. While United States never defaulted on its debt, just the mere thought of it can add a lot of investor anxiety and market volatility.

Negotiations also continue on the dual-track infrastructure bills which have stalled in Congress as lawmakers continue to debate the price tag of the budget reconciliation bill which includes various social programs such as free preschool, free community college, and expansion of Medicare to cover vision, dental, and hearing care.

On positive news in the healthcare sector, Pfizer and BioNTech submitted trial data for young kids to the FDA last week, showing the effectiveness of their Covid-19 vaccine on kids aged 5 to 11. The data will likely be followed by a formal application for emergency use authorization later this Fall. The potential approval of the vaccine for young kids could get the country much closer to the herd immunity against the Coronavirus.

Merck also announced phase 3 trial results of the oral antiviral Covid treatment it has been developing with its partner, Ridgeback Biotherapeutics. The drug, molnupiravir, reduced the risk of hospitalization by 50% by inhibiting the replication of the coronavirus inside the body. Merck said that it plans to seek emergency use authorization for the drug very soon.

Although it finished the month down 5%, its worst monthly loss in 2021, S&P 500 is still up a healthy 16% year-to-date. Dow Jones Industrial Average and the Nasdaq are also up 12% and 13% year-to-date, respectively. Fourth quarter of a calendar year tends to be a relatively good period for stocks.

This week officially kicks off the third quarter earnings season with a few consumer names such as PepsiCo and Conagra Brands reporting. We will get a good reading into the services sector with the ISM (Institute of Supply Management) report on Tuesday. The week will wrap up with the all-important September employment report on Friday which will surely influence the Fed decision on when to start pulling back from the ultra-accommodative monetary policies.

Market Scorecard:	**10/1/2021**	**YTD Price Change**
Dow Jones Industrial Average	34,326.46	12.15%
S&P 500 Index	4,357.04	16.00%
NASDAQ Composite	14,357.70	13.02%
Russell 1000 Growth Index	2,787.82	14.83%
Russell 1000 Value Index	1,563.39	15.84%
Russell 2000 Small Cap Index	2,241.63	13.51%
MSCI EAFE Index	2,263.90	5.42%
US 10 Year Treasury Yield	1.46%	55 basis points
WTI Crude Oil	$75.88	56.39%
Gold $/Oz.	$1,761.30	(6.96%)

Beacon Trust 163 Madison Avenue, Suite 600 | Morristown, NJ 07960 | 973.377.8090 | BeaconTrust.com