Beacon Trust
INNOVATING WEALTH STRATEGY

June 21, 2021

Beacon Weekly Investment Insights

Last week was all about the Fed as the Federal Open Market Committee (FOMC) concluded its 2-day meeting on Wednesday with a signal to the markets that it may be beginning to end its extra-dovish monetary policy that provided a much needed boost to the economy coming out of the pandemic. While it did not provide any specific guidance on when and how much it would reduce its massive bond buying program or increase rates, the mere rise in its members' expectations of future inflation and future interest rates as a result of the strong economic recovery was enough to cause a sharp selloff across risk assets, especially for cyclical stocks. Materials sector lost 6.3% and Financials were down 6.2% last week. The Dow Jones Industrial Average dropped by 3.5% and S&P 500 shed 1.9% for the week.

Our expectation is for the Fed to begin to gradually reduce its $120 billion a month bond buying program late this year or early next year, and discuss a normalization in the interest rate policy in late 2022 or early 2023. While there will be winners and losers across equities, bonds, and alternatives, we do not think that the balanced and prudent investment management approach we follow at Beacon Trust will show any material adverse reaction when interest rates inch higher. Even after a couple of rate hikes, interest rates will still remain very low by historical standards. Furthermore, the fiscal policy remains conducive to economic growth with the potential for trillions of dollars of new spending in physical and social infrastructure.

Last week's economic data included a much higher than expected producer price index (PPI), which climbed 6.6% in May on an annual basis based on supply chain problems and strong demand coming out of the pandemic. U.S. housing starts rose 3.6% to an annual rate of 1.6 million units, less than expected due to higher lumber and other material costs. Homebuilder sentiment also dropped to a 10-month low as a result of higher construction costs.

The much waited Biden-Putin summit took place in Geneva, Switzerland last week. There were no breakthrough moments during the summit, although progress was made in the areas of returning respective ambassadors to their posts and establishing the ground rules for cybersecurity as the two adversaries look to stabilize their rocky relationship.

We expect inflation to remain in focus and markets to be choppy over the next few weeks as investors digest any further signals on tapering they receive from the Federal Reserve. Chairman Powell is scheduled to speak before Congress on the economy and the pandemic on Tuesday. There will be no shortage of Fed speakers this week, as seven other Fed officials will be speaking and their words will be carefully parsed for their views on inflation and interest rates.

Economic data to be released this week includes existing home sales on Tuesday, manufacturing/services PMI and new home sales on Wednesday, durable goods orders on Thursday, Fed's preferred measure of inflation, personal consumption expenditures (PCE) data and consumer sentiment on Friday.

As we officially start the summer season, Amazon Prime Day kicks off this week on Monday. The largest online retailer will offer 2 million deals, making it the largest Prime Day since it began in 2015.

Market Scorecard:	6/18/2021	YTD Price Change
Dow Jones Industrial Average	33,290.08	8.77%
S&P 500 Index	4,166.45	10.93%
NASDAQ Composite	14,030.38	8.86%
Russell 1000 Growth Index	2,640.00	8.74%
Russell 1000 Value Index	1,522.09	12.78%
Russell 2000 Small Cap Index	2,237.75	13.31%
MSCI EAFE Index	2,308.52	7.50%
US 10 Year Treasury Yield	1.44%	52 basis points
WTI Crude Oil	$71.64	47.65%
Gold $/Oz.	$1,769.00	(6.56%)

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