

Beacon Weekly Investment Insights

Inflation continues as the number one factor on investor's minds, and last Thursday's Consumer Price Index report did not change the mindset. According to the report, overall prices rose 8.2% year over year in September, while core inflation rose a multi-decade high 6.6%. The largest component of the CPI calculation is a concept known as "owner's equivalent rent" which is a gauge of what an existing home-owner would pay to rent their own home. It makes up more than 40% of the calculation and remains stubbornly high. This may not be as quick to fall, even as rising mortgage rates have cooled new home sales, existing home sales, and builder's sentiment in recent months.

Volatility in financial markets could be seen in full display just by looking at the one day index changes after the CPI release on Thursday. After the higher than expected release, the S&P 500 index fell by about 2.4% before reversing and ending the day up 2.6%. This extraordinary price movement is exactly why we believe remaining focused on an appropriate asset allocation, believing in the securities we own on behalf of clients, and maintaining a longer term outlook helps guide our investment decisions.

After the hotter than expected inflation report, it is all but certain that the Federal Reserve will continue its interest rate increases at the November 2nd meeting. Futures markets are almost certain of a 75 basis point raise in the Fed Funds target rate to 3.75% – 4.00%. The question now remains with the December 14th meeting. Many had been predicting that the weakening economic data would be reason for the Fed to moderate these increases, but as long as inflation measures remain high, those predictions continue to be pushed to further meetings.

One final note on inflation relative to investor's inflation expectations 1 year out. According to last Friday's University of Michigan's survey, consumer's expectations actually rose to 5.1% from 4.7% in the previous month, and represented the first jump in expectations since March of 2022. This release was a primary reason both equity and fixed income markets fell on Friday. The benchmark 10 year US Treasury Note yield closed the week at 4.02%.

Corporate earnings season for the third quarter also kicked off in earnest last week, with reports from global banks such as JP Morgan and Citigroup along with Pepsi and Delta Airlines.. Expectations for the season are for a 3% rise in earnings over the same period last year, decelerating from 8% growth in the previous quarter. Over the next two weeks we will see the flurry of reports to parse through and report on. A meaningful headwind for US multinational companies is the strength of the US Dollar. Year over year through September, the US Dollar has appreciated by 16% against other major currencies, which acts as a drag on US company earnings as they report in dollars. For inflation purposes, a strong dollar makes imported goods cheaper, but US exports become more expensive. The dollar impact is expected to be about a negative 4%.

Earnings releases from the likes of Bank America, Goldman Sachs, Johnson & Johnson, IBM, United Airlines, Union Pacific, and Dow Chemical will come throughout the week. Economically, we will have housing data from the National Association of Home Builders on Tuesday and the National Association of Realtors existing home sales data on Thursday. Regional manufacturing indices from the New York region on Monday and the Philadelphia region on Thursday. Finally on Thursday, we will have the release of the Conference Board's Leading Economic Index, expected to once again decline by 0.3%.

Market Scorecard:	10/14/2022	YTD Price Change
Dow Jones Industrial Average	29,634.83	(18.45)%
S&P 500 Index	3,583.07	(24.82)%
NASDAQ Composite	10,321.39	(34.03)%
Russell 1000 Growth Index	2,082.30	(32.28)%
Russell 1000 Value Index	1,358.59	(17.95)%
Russell 2000 Small Cap Index	1,682.40	(25.07)%
MSCI EAFE Index	1,670.64	(28.49)%
US 10 Year Treasury Yield	4.024%	251 basis points
WTI Crude Oil	\$85.61	13.83%
Gold \$/Oz.	\$1,648.90	(9.83)%



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