

## Beacon Weekly Investment Insights

Stocks continued to meander in the new year on the heels of last year's impressive performance. The S&P 500 rose 1.8% last week and is modestly up (+0.3%) year-to-date, amid a combination of profit taking and the quiet period before earnings season kicks off in earnest. As shown in the table at the end of this document, almost all asset classes are roughly flat year to date (-1% to +1%), with the exception of Small Cap stocks. The Russell 2000 Index is down 3.75% year-to-date, after a strong rally during the fourth quarter of 2023.

The Consumer Price Index (CPI) report was released last week. Despite substantial progress over the past year, inflation remains doggedly above the Federal Reserve's (Fed) 2% price growth target. The CPI increased from 3.1% in November to 3.4% in December, its highest value since September. Real estate, formally known as shelter in CPI terminology, increased at a 6.2% annualized rate, driving the headline number due to its large weighting in the CPI calculation. Our view for 2024 has been that the CPI will average more than the Fed's 2% desired target, but not be the major problem that it was during the 2021-mid 2023 time period. The drop in the Producer Price Index (PPI), a measure of wholesale inflation, supports this viewpoint. The PPI Index fell 0.1% for the second consecutive month. On an annualized basis, the PPI rose a meager 1%, driven partially by a decline in gasoline prices. A drop in oil and gas prices serves as informal tax cuts to many consumers who are still reliant on fossil fuels for transportation and heating purposes.

Moving on to company specific news from last week, Boeing continues to grapple with the fallout from quality control problems and increased regulatory oversight related to its 737 Max 9 airplane. Boeing declined 12.4% last week, among the worst performers in the S&P 500. In contrast, JPMorgan Chase (JPM) continued to assert itself as one of the strongest financial institutions in the world. JPM kicked off earnings season reporting net revenue of \$39.9 billion, up 12% versus last year, and net interest income of \$24.2 billion, up 19%. Both of these numbers are impressive and include a modest benefit from the firm's acquisition of First Republic Bank, which occurred during last year's regional banking crisis. JPM also ranked first in global investment banking fees, showing the strength of its diversified business model.

Geopolitically, Lai Ching-te of Taiwan's Democratic ruling party was declared the victor in Taiwan's presidential election on Saturday. This is the third consecutive victory for the Democratic Progressive Party and will likely keep the republic on a collision course with China sometime in the decade ahead. The United States and United Kingdom engaged in a joint retaliatory strike against the Iranian-backed Houthis in Yemen. The near-term economic impact of turmoil in the Middle East has been an increase in shipping costs in the region, which may eventually seep into future inflation numbers.

The stock market was closed on Monday in observation of the Martin Luther King Jr. Day federal holiday. A variety of Federal Reserve governors will be on the road from Tuesday through Friday, speaking at various economic related events. The Fed will soon be entering the "blackout period" prior to its January 31<sup>st</sup> Federal Open Market Committee (FOMC) Meeting, so analysts will be keen to hear the governors' remarks this week. Futures markets are pricing in the very high likelihood of no change in interest rates after its January meeting. However, as seen in the aftermath of the Fed's December meeting, even the mere discussion of future interest rate cuts may be enough to get the market moving.

Reports on U.S. Retail Sales and Industrial Production will be released on Wednesday, providing insight into two distinct and important parts of the U.S. economy. The Fed will release its "Beige Book" also on Wednesday, which provides some granular level data on economic activity across the 12 Federal Reserve Districts. Reports on Initial Jobless Claims, Housing Starts, and Building Permits will be released on Thursday. Friday will include the release of reports on Consumer Sentiment and Existing Home Sales. In aggregate, this week's reports will provide further

clarity on what we expect to be a sluggish economy during the early part of 2024. A silver lining in any potential weakness may result in the Fed cutting interest rates earlier than expected, a development that may be cheered by financial markets.

<b>Market Scorecard:</b>	<b>1/12/2023</b>	<b>YTD Price Change</b>
Dow Jones Industrial Average	37,592.98	-0.3%
S&P 500 Index	4,783.83	0.3%
NASDAQ Composite	14,972.76	-0.3%
Russell 1000 Growth Index	3,076.83	0.82%
Russell 1000 Value Index	1,617.93	-0.70%
Russell 2000 Small Cap Index	1,950.96	-3.75%
MSCI EAFE Index	2,226.88	-0.42%
US 10 Year Treasury Yield	3.950%	+8 basis points
WTI Crude Oil	\$72.76	2.00%
Gold \$/Oz.	\$2,053.50	-0.88%

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