Beacon Trust
INNOVATING WEALTH STRATEGY

April 24, 2023

# Beacon Weekly Investment Insights

Last week we saw the first tranche of S&P 500 corporate earnings releases, so it is too early to make valuation judgements, but the sense is a slight sigh of relief. Financial institutions, mainly banks, were in extreme focus after the events of a few weeks ago that led to the collapse of Silicon Valley Bank and Signature Bank. Banks such as JP Morgan and Bank America saw an inflow of deposits, which soothed some angst within the sector. Additionally, more comfort came when a few regional banks reported, such as M&T Bank, First Horizon, and Citizens Financial, and management commented on the drop in deposits, but a stabilization of the outflow. We will continue to assess and monitor earnings as this week will be the largest week in the first quarter reporting season across all sectors. Mega tech will be in focus, along with Industrials, Consumer Staples, and Communication Services, along with more regional banking earnings.

Equity markets in general have been relatively quiet in anticipation of earnings. Volatility measures such as the VIX index, have declined to levels dating back to 2021. Interest rates, however, paint a less sanguine picture. The benchmark 10-year US Treasury yield rose 6 basis points last week but has declined by over 30 basis points on a year-to-date basis. Bond market participants have experienced a tremendous amount of volatility throughout the calendar year as the market tries to game out the path Chairman Powell and the voting members of the Fed's Open Market Committee will take with Fed Funds rates. Current consensus for the next meeting held on May 2-3 is for another increase of 25 basis points to continue the effort to tame inflationary pressures.

The divergence in opinion about the direction of interest rates stems from the direction of economic growth. We have seen evidence through a variety of economic data releases, that the economy is indeed slowing, and consumer sentiment remains subdued. The Conference Board's Leading Economic Indicators index fell 1.2% in May, representing the 12$^{th}$ consecutive monthly decline. Housing starts also fell 0.8%, along with building permits which slid 8.8%. Housing data is from March and is always reported with the two-month lag but does indicate that higher rates are cooling the housing market in general.

The release of the minutes from the last FOMC meeting revealed that the members anticipate a mild recession for the US economy later in 2023, but do not anticipate any rate cuts by year end. The persistence of the tight labor market continues as an input the Federal Reserve looks at when judging the trajectory of the economy and inflation. Weekly initial jobless claims have started to rise, but certainly remain low from a historical standpoint.

Also last week, the topic of the US Government debt ceiling came back to the forefront. House Majority Leader Kevin McCarthy introduced the Limit, Save, and Grow Act of 2023 at the New York Stock Exchange. This proposal would raise the US Government borrowing limit by $1.5 trillion in exchange for curbs on certain government spending, some of which were part of the Inflation Reduction Act signed in 2022. This proposal will be negotiated over the coming weeks and will most definitely be a contentious vote, even to get out of the House of Representatives. Importantly, however, there is a starting point to begin negotiations, which will likely continue through the summer months.

Corporate news that caught our attention over the weekend was the Chapter 11 bankruptcy filing by well-known retailer Bed Bath and Beyond. In the filing, the company will close all 360 retail locations along with 120 Buybuy Baby retail locations. While this had been telegraphed for many months, the actual filing brings to light a softer consumer spending environment, almost 500 retail locations that will be vacant, and an estimated 14,000 employees who will be negatively impacted.

Outside of the large number of earnings releases to parse through this week, we will also be watching some important data releases. Tuesday, we will see data on new home sales and the Case Schiller home price index.

Wednesday durable goods orders are released along with data on retail and wholesale inventories. Thursday will give us a first read into Q1 2023 GDP and pending home sales data. Friday will end the week with key inflation data with the release of the PCE deflator, a measure closely watched by the Federal Reserve.

| **Market Scorecard:** | **4/21/2023** | **YTD Price Change** |
|---|---|---|
| Dow Jones Industrial Average | 33,808.96 | 2.00% |
| S&P 500 Index | 4,133.52 | 7.66% |
| NASDAQ Composite | 12,072.46 | 15.34% |
| Russell 1000 Growth Index | 2,456.77 | 13.83% |
| Russell 1000 Value Index | 1,519.50 | 1.49% |
| Russell 2000 Small Cap Index | 1,791.51 | 1.72% |
| MSCI EAFE Index | 2,146.26 | 10.41% |
| US 10 Year Treasury Yield | 3.57% | -32 basis points |
| WTI Crude Oil | $77.73 | -3.15% |
| Gold $/Oz. | $1,983.06 | 8.72% |

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