

## Beacon Weekly Investment Insights

Last week may go down in financial history as “The Fed Pivot.” Most stock and bond indexes surged last week after the Federal Reserve surprisingly stated that it discussed *cutting* interest rates at their Federal Open Market Committee (FOMC) Meeting on Tuesday-Wednesday. The transition from tightening monetary policy to loosening it, via interest rate cuts, may be described as a pivot. All market participants had to hear was that the Fed was *thinking* about cutting for it to be off to the races. The Futures markets are currently expecting the Fed to cut rates after its March meeting with greater than 70% probability. Ironically and symbolically, a real bull was [found](#) meandering along the train tracks in Newark, NJ, not too far from Wall Street.

Circling back to last week’s numbers, the S&P 500 increased 2.5% last week, increasing its year-to-date gains to more than 22%. Perhaps more importantly, the year-to-date rally in stocks showed signs of broadening. Last week, the Dow Jones Industrial Average increased 2.9% and the small cap focused Russell 2000 increased 5.5%. Bonds also increased last week with the Bloomberg Barclays Aggregate Index rising approximately 2%, resulting in its total returns for the year exceeding 5%. The yield on the benchmark 10 Year U.S. Treasury Note fell from 4.25% to 3.93%, down from almost 5% a little over a month ago.

Almost forgotten in last week’s excitement generated by the Fed were the reports on the Consumer Price Index (CPI) and Retail Sales. The CPI slowed to a 3.1% annualized inflation rate in November, its lowest reading since June. Perhaps more importantly, the somewhat modest reading gives the Fed reason to pause and perhaps cut interest rates in the months ahead. The Retail Sales report was unexpectedly strong, rising 0.3% in November, driven by robust online purchases and spending in restaurants and bars. Since the U.S. consumer accounts for roughly 70% of GDP, the solid spending data suggests that an impending recession is not imminent.

Although Q3 earnings season is largely in the books, a few notable off-cycle firms reported last week. Oracle announced disappointing earnings from its cloud computing division and saw its stock fall 9% for the week. Toy maker, Hasbro, gave a “grinch” of a forecast for this season’s holiday sales, but its stock actually increased 3.5% last week since the bad news was likely priced into its stock. Earnings reports for Q4 will start to trickle out in mid-January, so the last two weeks of the calendar year are generally devoid of major company or economic reports.

Speaking of the economic calendar, the early part of the week is heavy on housing related announcements. The Home Builder Confidence Index will be released on Monday and two housing related reports, Housings Starts and Building Permits, will be released on Tuesday. These reports, in aggregate, will provide a clearer picture of the housing market which has recently been showing some signs of life as mortgage rates have fallen more than 1% over the past month.

The Conference Board’s Leading Economic Index (LEI) will be released on Thursday. This forward-looking measure, comprised of 10 sub-indexes, is expected to show a decline for the 20<sup>th</sup> consecutive month. If confirmed it would tie the 2007-2008 period as the longest decline before a recession officially began. In short, with Q4 GDP tracking at around 1%, we cannot completely rule out an upcoming recession, despite the aforementioned Retail Sales report.

The Personal Consumption Expenditures Index (PCE) Index will be released on Friday. It is reportedly the Fed’s preferred inflation gauge since it measures actual spending in contrast to the theoretical basket of the CPI, whose weights differ substantially from the budgets of many consumers. As the calendar year approaches its end, all of us at Beacon wish you a happy and healthy holiday season.

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<b>Market Scorecard:</b>	<b>12/15/2023</b>	<b>YTD Price Change</b>
Dow Jones Industrial Average	37,305.16	12.54%
S&P 500 Index	4,719.19	22.91%
NASDAQ Composite	14,813.92	41.54%
Russell 1000 Growth Index	3,021.04	39.98%
Russell 1000 Value Index	1,609.67	7.52%
Russell 2000 Small Cap Index	1,985.13	12.71%
MSCI EAFE Index	2,192.98	12.81%
US 10 Year Treasury Yield	3.928%	+5 basis points
WTI Crude Oil	\$71.79	-10.83%
Gold \$/Oz.	\$2,033.80	11.13%



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