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WEEKLY PERSPECTIVE ON CURRENT MARKET SENTIMENT

Volatility can Be a Friend, Don't Treat It as an Enemy

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Last Week's S&P 500 Index:
-2.2%

Key takeaways

» *With the probability of a U.S.-China trade deal becoming more uncertain, volatility in the stock market is on the rise.*

» *Volatility can present opportunities to put sidelined funds to work on pullbacks if forward-looking fundamentals are still sound.*

After Monday's selloff, this strategist broke out his calculator and quickly determined that the S&P 500 ended the day 4.5% lower than its all-time record closing high set on April 30. But boy, it sure doesn't feel that way. Even many of the so-called professionals in this market are reacting as though stocks are done and the bull market is over. Multiple big names in the equity-strategy and money-management business have been on the television networks telling viewers they have been reducing exposures over the course of the past few weeks. Fund flows have been out of stocks since late last year, even as the market climbed to new highs. And as far as regular investors are concerned? Based on our observations, most appear to be sitting on their hands and feeling nervous about the market going down. Even though some investors are sitting on cash they intend to eventually invest in stocks, many typically freeze when big downside point swings in the Dow make their stomachs churn.

As regular readers of this piece know, we have held a positive outlook on the stock market for some time. We took a little money off the table and redeployed some funds in an effort to reduce portfolio risk after the big run up in the market from the Christmas Eve panic low. Since that time and prior to last week, equities had made a determined, gradual march higher with hardly a stumble along the way.

But the timing seems right for a more volatile period in the markets. Uncertainty reigns supreme over whether or not the U.S. will be able to negotiate satisfactory trade agreements with China and, eventually, the European Union. The question of whether the Federal Reserve will make a mistake and raise rates too far, in our opinion, is largely off the table over at least the balance of this year. It also appears that many of the world's most important central banks are on the sidelines or even in the process of attempting to stimulate their economies.

In our opinion, it is likely we will see good buying opportunities in the equity markets in coming weeks and months as trade frictions linger. But trying to pick the bottom in any pullback, as always, is not going to be easy. Our forward outlook calls for good economic growth with only modest inflation. Our outlook for the international economies is stabilization at a modest pace. That means having a plan to invest sidelined cash in the market on the way down. Ideally, investors should step in and gradually execute that plan as the opportunities arise. This strategist will not be able to tell you where the precise bottom will be.

Take advantage of what the market is giving to you. Potentially, in the nearer term, more opportunities will present themselves. We may have had a bounce off Monday's low, but it is unlikely the market will be all clear sailing from here. Look toward cyclical sectors such as Industrials, Technology, Consumer Discretionary, and Energy. We believe this expansion has further to go. Volatility can be your friend; don't treat it as your enemy. Use it to your advantage.

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