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Investment Institute

Market Commentary

Weekly perspective on current market sentiment **September 18, 2024**

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Last week's S&P 500 Index:+4.0%

To-do list

Key takeaways

- We are repositioning funds from the fixed-income portion of portfolios from short- and long-term allocations into intermediate maturities and stocks.
- We think the S&P 500 Index is likely range-bound in coming months.

A quick glance at the stock and bond markets tells investors that the S&P 500 Index (SPX) is once again close to its record high (5,667) set back in mid-July while the yield on the 10-year Treasury note has dropped down under 3.7%, below the bottom end of our year-end target range. In other words, both stock and bond prices have rallied more than what we think the underlying fundamentals support. Valuations may not be extremely high but are certainly stretched in our view. The question is: What to do now?

We have a presidential election less than seven weeks away and are in what is historically a weak period of the calendar year for equities. But as our regular readers know, we want to take advantage of any weakness we might see in the SPX. We are also repositioning funds from the fixed-income portion of portfolios from short- and long-term allocations into intermediate maturities and stocks. Recall that we took our rating for small-cap equities up to neutral from underweight, but we continue to favor large caps over the (small-cap) Russell 2000 Index. For now, we want to continue to focus on higher-quality equity and fixed-income segments of the market as we foresee economic weakness in the immediate quarters ahead before the skies start to clear a bit.

The Federal Reserve (Fed) is embarking on what will likely be a series of rate cuts over a number of meetings over the balance of this year and next. We see a total of 175 basis points (100 basis points equals 1.0%) of cuts between now and year-end 2025. We anticipate that these Fed cuts should have a positive effect on the economy and markets in 2025. We believe the global economy is likely to benefit as well as major central banks around the world have already cut rates or are on the verge of doing so.

Seasonal tendencies and the upcoming election that polling shows is tight are injecting uncertainty into financial markets. We think the SPX is likely range-bound in coming months and suggest that when the index trades toward the top of the range as it is currently, investors trim positions in our least-favored sectors such as Real Estate, Utilities, Consumer Discretionary, and Consumer Staples. Should we get equity downside toward recent lows, sidelined funds intended for investment in the stock market should be put to work in favored sectors such as Energy, Communication Services, Financials, Industrials, and Materials. We see these favored sectors as offering more robust balance sheets and dependable cash flows as well as more reasonable valuations than our least-favored areas.

Uncertainty often results in opportunity. We believe 2025 may offer investors an improving economy that is benefitting from Fed rate cuts. The goal is to take advantage of opportunities now and in coming months to make portfolio adjustments in equities and fixed income that we believe have the potential to benefit performance next year. Put together a portfolio "to-do list," and be ready to make allocation changes as opportunities arise.

Risk considerations

Forecasts, estimates, and projections are not guaranteed and are based on certain assumptions and views of market and economic conditions which are subject to change.

Each asset class has its own risk and return characteristics. The level of risk associated with a particular investment or asset class generally correlates with the level of return the investment or asset class might achieve. **Stock markets**, especially foreign markets, are volatile. Stock values may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. **Bonds** are subject to market, interest rate, price, credit/default, liquidity, inflation and other risks. Prices tend to be inversely affected by changes in interest rates.

Sector investing can be more volatile than investments that are broadly diversified over numerous sectors of the economy and will increase a portfolio's vulnerability to any single economic, political, or regulatory development affecting the sector. This can result in greater price volatility.

Definitions

Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index**.**

Russell 3000® Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market.

S&P 500 Index is a market capitalization-weighted index composed of 500 widely held common stocks that is generally considered representative of the US stock market.

An index is unmanaged and not available for direct investment.

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