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Weekly perspective on current market sentiment | October 14, 2020

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Last Week's S&P 500 Index: +3.8%

Uphill climb

Key takeaways

- Stocks have come a long way in a short period of time.
- The gains from here are likely to be more gradual, but we still expect further record highs for the S&P 500 Index in 2021.

We all know the major stock indices are up huge from their March 23 panic lows. The NASDAQ Composite has rallied nearly 74% based on pricing at the time of this writing while the S&P 500 Index has jumped nearly 60%. The magnitude of this rally has been helped by the market's confidence that the recession would be deep but short, coronavirus-related medical news (potential vaccines and treatments, etc.) would continue to improve, expectations for a much better labor environment would pan out, and, last but not least, the U.S. Federal Reserve would carry an easy money policy well into the future. That helps explain how we got from back there to here, but what about the road that lies ahead?

As we have mentioned many, many times, the stock market does not move in one direction forever. Even though equities have been in rally mode since late March, there have been a number of pullbacks and hiccups that have given pause and presented opportunities. That has virtually always been the case looking at history. The key is to have a plan and exercise patience but to then execute that plan when those opportunities present themselves. We say this as after five or six weeks of increased volatility the S&P 500 is trading within a whisper of its all-time record high set in early September.

So, where do we go from here? The midpoint of our year-end 2021 target range for the S&P 500 is 3850. That represents an increase of almost 9% from current levels, excluding dividends. We consider that return to be attractive, and it helps explain our favorable rating on large-cap U.S. stocks. And how do we get there? In terms of sectors we believe will lead the charge, our focus is on Information Technology, Consumer Discretionary, Health Care, and Communication Services. We continue to favor large-cap over small and U.S. over international equities.

We believe medical news will improve and there will be a vaccine, or even multiple vaccines, but the timing is difficult. We have also weighed the probability that after the election in November the economy will likely be moving into the New Year with modest momentum. Should the Democrats sweep and control the presidency and both houses of Congress, we think it is safe to say that any stimulus package is likely to be larger than one that would have been proposed by the Republicans or passed in a divided Congress. That would probably at least somewhat offset a higher-tax/heavier-regulation environment that would almost certainly be the outcome of a blue wave.

Stocks have come a long way in a relatively short period of time. The uphill climb from here is likely to be more gradual, but we remain convinced that the next 15 months will ultimately bring new record highs to the major equity indices.

Risk Considerations

Forecasts are not guaranteed and based on certain assumptions and on 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. **Foreign investing** has additional risks including those associated with currency fluctuation, political and economic instability, and different accounting standards. These risks are heightened in emerging markets. **Small-cap stocks** are generally more volatile, subject to greater risks and are less liquid than large company stocks.

Communication services companies are vulnerable to their products and services becoming outdated because of technological advancement and the innovation of competitors. Companies in the communication services sector may also be affected by rapid technology changes; pricing competition, large equipment upgrades, substantial capital requirements and government regulation and approval of products and services. In addition, companies within the industry may invest heavily in research and development which is not guaranteed to lead to successful implementation of the proposed product. Risks associated with the **Consumer Discretionary** sector include, among others, apparel price deflation due to low-cost entries, high inventory levels and pressure from e-commerce players; reduction in traditional advertising dollars, increasing household debt levels that could limit consumer appetite for discretionary purchases, declining consumer acceptance of new product introductions, and geopolitical uncertainty that could affect consumer sentiment. Some of the risks associated with investment in the **Health Care** sector include competition on branded products, sales erosion due to cheaper alternatives, research and development risk, government regulations and government approval of products anticipated to enter the market. Risks associated with the **Information Technology** sector include increased competition from domestic and international companies, unexpected changes in demand, regulatory actions, technical problems with key products, and the departure of key members of management. Technology and Internet-related stocks, especially smaller, less-seasoned companies, tend to be more volatile than the overall market.

Definitions

NASDAQ Composite Index measures the market value of all domestic and foreign common stocks, representing a wide array of more than 5,000 companies, listed on the NASDAQ Stock 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 U.S. stock market.

An index is unmanaged and not available for direct investment.

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