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Investment Institute

Market Commentary

Weekly perspective on current market sentiment **October 23, 2024**

Scott Wren
Senior Global Market Strategist

Last week's S&P 500 Index: +0.9%

Adjustments

Key takeaways

- Our goal in suggesting the portfolio adjustments announced earlier this week is to give guidance on where to find a better yield and potentially see capital appreciation while short-term interest rates continue to decline well into the coming year.
- The bottom line is it's time to look elsewhere for yield.

The global economic environment remains fluid and is changing as we move through the third-quarter earnings season and toward the end of the calendar year. From a domestic standpoint, growth has been better than what we initially expected coming into 2024 as the labor market and consumer spending have been more durable than anticipated. In addition, earnings for the S&P 500 Index have proven to be resilient, at least up to this point. But in many parts of the world, particularly the eurozone, economic prospects have deteriorated in recent quarters.

The question is: What to do about it in portfolios? From the highest level, our guidance suggests leaning toward the U.S. relative to international markets. Why? For example, earlier this week we halved our 2025 eurozone gross domestic product (GDP) projected growth rate to 1.1% from the previous 2.2%. This noticeable downgrade to GDP will bring down overall growth for the developed world as a whole. The U.S. remains a relative bright spot in the developed economies, and we continue with our favorable rating on U.S. large-cap equities.

Looking at China, by far the largest emerging-market economy, its leaders' attempts to sustainably stimulate their economy for more than a decade haven't worked. Over the past two months, China has cut interest rates and given consumers various incentives to encourage home buying. The effects should have a positive effect over the next 12 – 15 months, but we are not convinced that China has turned the corner toward a longer-term growth path and remain unfavorable on emerging-market equities as a whole.

Our goal in suggesting the portfolio adjustments announced earlier this week is to expand our guidance on where to find a better yield and potentially see capital appreciation while short-term interest rates decline well into the coming year. In August, for example, we changed guidance to reallocate from short-term fixed income into U.S. large- and small-cap equities to position for the economic recovery we foresee.

Then we took a second step out of short-term fixed income earlier this week. Our latest guidance is to continue to overweight the intermediate maturities (three to seven years) but now to reallocate from cash and short-term fixed income to take long-term fixed income up from an underweight to a full allocation, one consistent with long-term goals.

The bottom line is that we've taken two reductions in short-term fixed income because the yields that were so attractive 12 – 24 months ago are unlikely to help investors beat inflation in the coming year. Time to look elsewhere for yield, in our view.

Risk considerations

Forecasts and targets are 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- and mid-cap stocks** are generally more volatile, subject to greater risks and are less liquid than large company stocks. **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. **High yield (junk) bonds** have lower credit ratings and are subject to greater risk of default and greater principal risk.

Definitions

An index is unmanaged and not available for direct investment.

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.

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