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# Market Commentary

**Weekly perspective on current market sentiment** **October 16, 2024**

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Last week's S&P 500 Index: +1.1%

## Look ahead, not behind

### Key takeaways

- The probability of a big earnings beat or miss for the SPX as a whole at this point in the cycle is quite low.
- Focus on what the economy will do in the future and the sectors and asset classes that should see the most benefits.

The third-quarter earnings reporting season starts in earnest this week, and even with recent downward revisions to expectations, the S&P 500 Index (SPX) is setting record highs. For the overall market, there likely won't be all that much to get excited about. In our view, the probability of a big earnings beat or miss for the SPX as a whole at this point in the cycle is quite low.

Of course, earnings season attracts a lot of attention from the media. But investors need to realize that in an economy with moderating growth and easing inflationary pressures, the actual results, for most companies, probably will not differ much from guidance. As the economy gradually slows, most individual company analysts have an easier time confirming the guidance their companies are giving out when it comes to revenues and earnings. Sure, there will be the usual big positive and negative surprises coming from a relatively small number of individual companies, but not so much from the overall market.

It is when the economy is moving quickly in a direction that is different from the recent trend that earnings get tough to predict. Under those conditions, even the companies themselves have a hard time issuing accurate guidance to the analyst community. And when the future is uncertain, you can bet that very few companies will go out on a limb and tell investors that everything looks really good — even if they think it does. Saying that, we do look for this to be a record year for SPX earnings followed by further gains in 2025.

Keep in mind that earnings do not tell investors what is going to happen in the future. They merely tell the story of what happened in the past — and really just the very recent past. The current earnings reporting season is really more of a confirmation process. We see third-quarter earnings confirming that our outlook for the economy has been correct; the economy is in a slowing trend that is nearing its end.

But for investors, as always, it is what the future holds that is important. We continue to see an economic recovery developing through 2025. That means cyclical sectors that are sensitive to the ebb and flow of the economy likely will see most of the benefits in an upswing. We currently favor economically sensitive sectors such as Industrials, Financials, and Materials and rate the Energy sector as most favorable. Earnings growth in these sectors should benefit from a stronger economy as 2025 progresses. Note that we also rate the Communication Services sector as favorable.

So do not get caught up in the earnings season hype. A big earnings surprise for the overall market is not likely in the cards. Focus on what the economy will do in the future and the sectors and asset classes that should see the most benefits because earnings reports are nothing more than a lagging, not leading, indicator.

**Risk considerations**

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.

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. **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. Investing in the **Financial** services companies will subject an investment to adverse economic or regulatory occurrences affecting the sector. There is increased risk investing in the **Industrials** sector. The industries within the sector can be significantly affected by general market and economic conditions, competition, technological innovation, legislation and government regulations, among other things, all of which can significantly affect a portfolio's performance. **Materials** industries can be significantly affected by the volatility of commodity prices, the exchange rate between foreign currency and the dollar, export/import concerns, worldwide competition, procurement and manufacturing and cost containment issues.

**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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