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Investment Institute

Market Commentary

Weekly perspective on current market sentiment **April 5, 2023**

Scott Wren
Senior Global Market Strategist

Last week's S&P 500 Index: +3.5%

Range bound for now

Key takeaways

- We think this year is largely going to be spent in a range that has seen the S&P 500 Index (SPX or the Index) trade between roughly 3,600 on the downside and 4,300 on the upside since late April 2022.
- We do not recommend chasing the stock market higher from current levels but believe pullbacks toward the lower end of the trading range are potential opportunities.

Here we go again. The S&P 500 Index has rallied three weeks in a row despite uncertainty, and we believe it might be headed up close to this year's highs in the coming weeks. Recall that in early February of this year the Index traded just shy of 4,200 after a big bounce off the late-December lows. But as has been the case the last few times the Index has made a noticeable run higher, we don't think the equity market will have the lasting momentum, or the supportive underlying fundamentals, to break out to the upside in the nearer term. In fact, we think this year is largely going to be spent in a range that has seen the SPX trade between roughly 3,600 on the downside and 4,300 on the upside since late April/early May of 2022. So, for now, we expect we are likely just revisiting the top end of the range.

We have discussed at length in this weekly piece some of the rationale behind our assertion that investors should not be chasing the rallies at the top end of the range. While the Federal Reserve's (Fed's) aggressive interest-rate hikes aimed at knocking back inflation toward its long-term target of 2% are helping to slow the economy and will likely eventually tip it into a moderate recession later this year, the recent turmoil in the financial sector will also be at play in coming months and quarters.

We know from the most recent Fed survey of senior loan officers published back in January that credit standards have been tightening. In other words, it's been tougher for households and commercial borrowers to get a loan. We also know that there has been some movement of deposits from smaller regional and community banks to the large banks, much of which has been in the wake of the recent failure of two banking institutions. Depositors are wondering if their funds will be protected above the current FDIC limits as are the banking institutions themselves.

To this point, there have been no guarantees from the U.S. Treasury that all deposits above the limit will be fully guaranteed. Treasury Secretary Janet Yellen testified to Congress that deposit protection above the FDIC limit would be on a "case-by-case basis." We think that regional and smaller banks will likely be subject to more oversight and tighter regulation looking ahead. This group of banks is likely to be more cautious with its lending looking ahead, some of it by choice and some due to potential regulation. The American economy runs on credit. Less credit availability is a headwind for the economy.

While we are not recommending chasing the stock market higher from current levels, we do believe that pullbacks toward the lower end of the trading range are potential opportunities. We want to focus on U.S. over international, large- and mid-cap stocks over small, and favor sectors like Energy, Health Care, and Technology that we believe have the potential to weather the economic storm we may see later this year.

Risk considerations

Forecasts 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.

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

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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