Market Commentary

Weekly perspective on current market sentiment **September 20, 2023**

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Last week's S&P 500 Index: -0.2%

Volatility and opportunity

Key takeaways

- Much of investing is about taking advantage of opportunities.
- Sometimes it is hard to process, but investors need to understand that volatility creates opportunities. Be ready.

Markets that gyrate and tend to move in different directions can provide investors with opportunity. On one hand, when the stock market trades down, it offers investors the opportunity to put money to work in equities at more attractive levels — as long as the forward-looking fundamentals are still positive (of course). On the other hand, when the stock market trades higher than the forward-looking fundamentals appear to justify, investors have the opportunity to take a little money off the table and wait patiently for a better point to reinvest those funds. Much of investing is about taking advantage of opportunities.

Over the course of the last year, we have pointed out that many market participants appear underinvested in equities. In fact, for much of the last 15 years, retail investors have had trillions of dollars on the sidelines parked in cash and cash-like financial instruments. In many past cycles it was reasonable to expect that a good portion of those sidelined funds would eventually find its way back into the stock market. But that has not been the case more recently. How come?

Part of the reason is that many of the investors who saw the value of their equity accounts tumble when the technology bubble burst in the 2000 – 2002 period and then again in the wake of the 2008 financial crisis are now older and in, or at least closer to, retirement. They may have been mentally prepared to ride through a big market correction, thinking that if something bad happened they would have time to recover from any losses. But now, many years after these two bear markets and coming off the equity drop early in the pandemic period, the appetite for risk seems diminished for many. However, planning one's resources to meet increased life expectancy may require that investors reassess their risk and return objectives. Nobody likes the thought of outliving their savings.

But what about those investors who have cash on the sidelines and are patiently looking for spots to put money to work in equities? We think those investors will have a chance to act over the coming 6 to 12 months as downside equity volatility creates opportunities. But for now, with the Materials, Industrials, and Health Care sectors missing most or all of the 2023 rally, we think they currently represent good values for long-term investors who want exposure to the likely infrastructure, reshoring projects, and health needs of an aging population.

Investors need to remember that, on average, going back to 1928, the S&P 500 index has experienced a 10% correction approximately every 11 months. Pullbacks happen. For many investors, it is sometimes hard to process, but we all need to understand that volatility, both up and down, creates opportunities. Be ready when opportunity is presented.

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.

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