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Investment Institute

Market Commentary

Weekly perspective on current market sentiment — **November 15, 2023**

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Last week's S&P 500 Index: +1.3%

Taking advantage of volatility

Key takeaways

- Long-term investors should be patient and wait for the market to provide opportunities to put cash to work.
- We believe investors should focus on pullbacks in U.S. Large Cap stocks with particular interest in the Industrials, Materials, and Health Care sectors.

To say the least, recent months have produced big market moves up and down in both stocks and bonds. For investors, the question is how to play the volatility. Is it best to just sit on your hands and not get caught up in all the noise, or is there something to be done that can be a benefit in the longer term? A couple of things come to mind.

First, we believe the S&P 500 Index (SPX) will close out next year in the 4,600 – 4,800 range. The good news is that is higher than current levels and well above where we think the index is likely to finish this year. The bad news is it is likely to be a bumpy ride between now and the end of next year. The market rarely moves up in a smooth, consistent manner, which can give market participants indigestion from time to time.

Volatility is a basic part of investing. As we like to remind our readers, the SPX has experienced a 10% pullback on average every 10.5 – 11 months over the last 80 years, according to Bloomberg data. We believe the longer-term outlook for the domestic and global economies continues to point toward growth. We firmly believe that one of the best ways to participate in this growth is through the ownership of equities. Volatility 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 positive forward-looking fundamentals are still intact. On the other hand, when the stock market trades higher than the forward-looking fundamentals might appear to justify, investors have the opportunity to take a little money off the table and/or wait patiently for a better (lower) point to reinvest those funds. Much of investing is about taking advantage of opportunities.

The SPX appears to have settled into somewhat of a range. We think the top end of the range is near 4,600 with the bottom end coming just a bit below 4,100. The recent late-October pullback nearly touched 4,100 before the big 9% bounce higher we have seen over the last 12 trading days. We do not want to chase this rally as headwinds still exist. We do not see the risk-reward as attractive at current levels. Headwinds include higher long-term interest rates, worsening geopolitical tensions, and a slowing economic and corporate earnings outlook.

We believe long-term investors should be patient and wait for the market to provide downside opportunities to put sidelined funds to work in equities. They should have a plan, and when opportunities present themselves, they should execute that plan. We are focused on putting sidelined cash to work on pullbacks in U.S. Large Cap equities with particular interest in the Industrials, Materials, and Health Care sectors.

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Forecasts and targets are based on certain assumptions and on views of market and economic conditions which are subject to change.

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