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Investment Institute

Market Commentary

Weekly perspective on current market sentiment **August 2, 2023**

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Last week's S&P 500 Index: +1.0%

Reiteration

Key takeaways

- We believe investors will have better opportunities to put money to work in the stock market over the course of the coming few quarters. We continue to call for patience.
- In other words, our view is to emphasize capital preservation while a sentiment-driven market becomes more overextended.

We have said it before, and we will say it again. Our analysis suggests that now is not the time to chase the technology sectors that have driven the bulk of this rally. For a long list of reasons, we remain cautious and believe that in the nearer term stocks will struggle to move much higher. Granted, our year-end S&P 500 Index (SPX) 2024 target range of 4,600 – 4,800 is higher than where the index is trading now, but the risk-versus-reward tradeoff at this point is not attractive in our view. Valuations by almost any measure are stretched. We believe investors will have better opportunities to put money to work in the stock market over the course of the coming few quarters. We continue to call for patience.

If inflation's descent flattens out and reverses, and as interest rates rise further, we believe the sectors that have driven this rally should be vulnerable to sharp pullbacks. The real point is to be overweight where the price is most attractive, where potential reward exceeds likely risk. That's why we suggest longer-term investors put money into quality sectors that have underperformed during the rally. These are the sectors that we think will perform well as the tech-related sectors pull back. These are also sectors that we believe have good long-term revenue-generation prospects to pay dividends.

In other words, our view is to emphasize capital preservation while a sentiment-driven market becomes more overextended; it's about securing dividend streams for income and positioning for potential long-term capital gains. This requires setting aside the fear of missing out today in favor of a disciplined and incremental approach — also known as dollar cost averaging.

If you are looking out two, four, or five-plus years, we certainly believe that equities will remain one of the best ways to build wealth over time as investors participate in the continued growth of the global economy. History shows that putting money into the stock market in a systematic way over time has normally paid off in the long run. We think this will continue to be the case in the decades ahead.

The only kind of regret that we're not prepared to satisfy is fear of missing out on a nearer-term further tech-sector rally. We believe there will be time to catch that train once the earnings outlook improves by enough so that an investor is not risking savings in a rally that we believe is sentiment-driven and occurring as S&P 500 Index earnings are broadly in recession.

Risk considerations

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

A periodic investment plan such as dollar cost averaging does not assure a profit or protect against a loss in declining markets. Since such a strategy involves continuous investment, the investor should consider his or her ability to continue purchases through periods of low price levels.

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** are volatile. Stock values may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. There is no guarantee that **dividend-paying stocks** will return more than the overall stock market. Dividends are not guaranteed and are subject to change or elimination.

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