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Investment Institute

Market Commentary

Weekly perspective on current market sentiment   September 23, 2020

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Last Week's S&P 500 Index: -0.6%

Justified

Key takeaways

- Better than expected economic news has led us to boost earnings and performance expectations for the S&P 500 Index.
- We continue to believe pullbacks offer an opportunity to put sidelined funds to work in equities.

Equities have run long and hard since the late March lows to the recent early September record highs. The last couple of weeks of downside volatility makes sense to us, as traders take a bit of money off the table after a nearly 76% rally in the NASDAQ Composite Index and a nearly 62% jump in the S&P 500 Index over that time frame. As history has shown time and time again, stocks just don't go up in a straight line forever. Eventually the market does pull back, often meaningfully, especially after a huge run. But we continue to believe big down days and weeks represent opportunities for investors with sidelined funds to step in and execute their well thought out portfolio plans. Our forward economic and earnings growth outlook remains positive.

In fact, our forward positive outlook has further improved in recent weeks and led us to hike our economic and earnings numbers as we look to year-end 2020 and, more importantly, year-end 2021. As a result, our year-end target ranges for the S&P 500 Index as well as a number of other equity indices have also moved higher. We have attempted to focus investors on the year-end 2021 period as COVID-19, Congressional stimulus prospects, and election-related uncertainties will likely continue to drive the day-to-day and week-to-week market action over the balance of this year. Looking ahead, we are expecting the market to focus more on the underlying fundamentals as some of these issues are potentially resolved and we move into and through next year.

Specifically, the gross domestic product (GDP) contraction we projected to be nearly 6% this year now looks to be a more moderate 3.7%. Certainly not good but noticeably better than our previous expectations. We also believe the U.S. economy will post better performance next year than initially expected and have raised our growth rate to 3.8%. These adjustments have been a key factor in pushing our earnings projections for the S&P 500 Index up to $130 this year and $165 in 2021. If we are correct, next year's earnings will be slightly ahead of the $163 posted last year. In addition, our estimates for economic growth in the eurozone and the developed international markets as a whole have moved up. And with nearly 40% of revenues for the S&P 500 Index coming from outside the country, this is an important bit of positive news for large-cap earnings growth.

Given our improved economic and earnings outlook, we believe increased expectations for the S&P 500 Index for this year and next are justified. The mid-point of our year-end 2020 target range is now 3580 with a 3850 mid-point for the end of 2021. We continue to rate the Information Technology sector as our most favorable. We also favor the Consumer Discretionary, Communication Services, and Health Care sectors.

We believe investors should stay invested, and take advantage of pullback opportunities.

Risk Considerations

Forecasts are not guaranteed and 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.

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. Risks associated with the **Consumer Discretionary** sector include, among others, apparel price deflation due to low-cost entries, high inventory levels and pressure from e-commerce players; reduction in traditional advertising dollars, increasing household debt levels that could limit consumer appetite for discretionary purchases, declining consumer acceptance of new product introductions, and geopolitical uncertainty that could affect consumer sentiment. Some of the risks associated with investment in the **Health Care** sector include competition on branded products, sales erosion due to cheaper alternatives, research and development risk, government regulations and government approval of products anticipated to enter the market. Risks associated with the **Information Technology** sector include increased competition from domestic and international companies, unexpected changes in demand, regulatory actions, technical problems with key products, and the departure of key members of management. Technology and Internet-related stocks, especially smaller, less-seasoned companies, tend to be more volatile than the overall market.

Definitions

NASDAQ Composite Index measures the market value of all domestic and foreign common stocks, representing a wide array of more than 5,000 companies, listed on the NASDAQ Stock Market.

S&P 500 Index is a market capitalization-weighted index composed of 500 widely held common stocks that is generally considered representative of the U.S. stock market.

An index is unmanaged and not available for direct investment.

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