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Investment Institute

Market Commentary

Weekly perspective on current market sentiment **June 16, 2021**

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Last week's S&P 500 Index: +0.4%

Looking out through 2022

Key takeaways

- As we look out through year-end 2022, we believe many of the portfolio themes we currently favor should continue to work for investors.
- We believe we are in the early stages of an economic recovery that has multiple years to run and suggest investors position accordingly.

Since the 2020 edition, we have used our Midyear Outlook report to extend the view on the economy and markets to 18 months forward, rather than just the current calendar year end. Investors have welcomed this change as they have sought a clearer view of how the markets might perform that looks out through the front windshield and farther than just the edge of the car hood. We recommend that investors be "in it for the long haul" and hold well diversified portfolios that can serve them well as the economic cycle ebbs and flows but understand their desire to better understand what lies ahead over a six to 18 month tactical time horizon. Opportunities frequently arise that can be taken advantage of over this shorter time frame.

Our overall themes when looking out through year-end (YE) 2022 are largely unchanged. We believe the economy is in the early stages of a new cycle that still has multiple years to run. In our view, the stock market is likely to post good upside performance this year and next. In fact, we see the potential for the S&P 500 to gain 15% or slightly more from current levels at the time of this writing to the mid-point of our YE 2022 target range (4,900). We see interest rates and inflation on the rise as is typically the case in the early stages of a new cycle as demand for goods and services increases and drives the economy forward and out of the previous slowdown or, in the current case, recession. We expect the yield on the 10-year Treasury note to gradually rise into the 2.25% to 2.75% range by YE 2022 from the current 1.5%. The U.S. Federal Reserve's (Fed's) near-zero fed funds interest rate target is unlikely to change over the coming 18 months, but at some point during this time period, our central bankers will likely start to hint that they will begin reducing (or "tapering" in Fed-speak) the amount of bonds they are buying in the open market each month from the current $120 billion.

While the U.S. is likely to continue to lead the world economy out of the woes of the pandemic-induced global recession, we also believe other countries will see their prospects improve as vaccines are more widely distributed and fiscal and monetary policies help their recoveries. As a result, in addition to U.S. large caps and U.S. small caps, we favor emerging markets as we expect global trade volumes to surge over the coming six to 12 month time horizon as economies improve and supply-chain disruptions begin to ease.

The bottom line is we believe there are numerous opportunities for investors over the coming 18 months. We recommend leaning toward those asset classes and sectors that can benefit from the economic landscape we anticipate. We believe investors should remain invested, and look for opportunities to put sidelined funds to work.

Risk Considerations

Forecasts and targets 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-cap stocks** are generally more volatile, subject to greater risks and are less liquid than large company stocks.

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