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Investment Institute

Weekly perspective on current market sentiment **December 1, 2021**

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Last Week's S&P 500 Index: -2.2%

Executing the plan

Key takeaways

- The stock market appears set for a period of increased volatility as the COVID Omicron variant creates uncertainty.
- Given our positive economic outlook, having a plan and taking advantage of any downside in equities is recommended.

Downside volatility in the stock market. Remember that? We haven't had much of it in quite a while as the recent selloffs did not see much follow through and the S&P 500 quickly regained its footing and rallied back to set new record highs. Currently, as concerns over the COVID Omicron variant filter through the financial markets, the question is: How far will the equity market back up?

At the risk of sounding like a broken record, we frequently reiterate the importance of having a plan to get sidelined funds put to work in the stock market. We are going to do that again this week as last Friday's stock swoon is a good reminder that downside opportunities do present themselves from time to time, even in strong bull markets.

The key, of course, is the forward outlook for the economy. The economic environment allows corporations to book profits and grow earnings. We continue to project a good economic environment as we look ahead through year-end 2022. Gross domestic product (GDP) growth is expected to be well above the historical average. And, importantly, we see inflation decelerating next year relative to this year. Inflation is the biggest risk to our positive outlook as the Federal Reserve (Fed) is unlikely to stand by and let price pressures hold at recent levels for an extended period of time much less increase even further from here. Saying that, and given our outlook, a Fed rate hike late next year seems probable, but we believe our central bankers will want to be careful to not impede or stop the recovery. Weaning the economy off meaningful stimulus, however, is never an easy task, especially in a $22 trillion economy.

So, back to the plan. We have recommended using a strategy of dollar cost averaging into the market rather than jumping in all at once. That is still a good idea in our opinion. But we also want to take advantage of pullbacks when they occur. Investors with cash on the sidelines who have a positive view of the economy as they look ahead need to consider bumping up the amount of sidelined cash they are reinvesting in the equity market.

An important part of any investment plan is knowing what you want to buy prior to any meaningful pullback. What are the holes that need to be filled in your portfolio? We recommend being ready to take advantage of opportunities by acting and executing your well-thought-out plan. We published a report with changes in many parts of our guidance on Nov. 15 titled "Revising 2022 targets and equities, alts guidance".

We favor large- and mid-cap U.S. equities. In terms of sectors, we favor Information Technology and Communication Services for their growth characteristics and Industrials and Financials for their sensitivity to a continuation of the recovery.

Have a plan. Be ready to act. We see opportunities in equities through the end of next year.

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

Sector investing can be more volatile than investments that are broadly diversified over numerous sectors of the economy and will increase a portfolio's vulnerability to any single economic, political, or regulatory development affecting the sector. This can result in greater price volatility.

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.

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