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Investment Institute

Market Commentary

Weekly perspective on current market sentiment **August 28, 2024**

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Last week's S&P 500 Index: +1.5%

Portfolio ideas

Key takeaways

- One of our goals this year has been to be patient and act when the markets gave us opportunities.
- From here, patience will still likely be required, and investors should have a plan should further opportunities present themselves.

Market volatility in recent weeks created a variety of market opportunities for investors. The dip in equities came and went rather quickly, and we made adjustments seeking to take advantage of the downswing. Same with fixed income. As bond prices rallied (yields fell), we reallocated from our short-term fixed income "parking spot" into the equity market and from long-term fixed income into intermediate-term maturities (3 – 7 years) while boosting our rating on the latter to favorable. (From August 6, 2024 Institute Alert 'Rebalancing portfolio allocations') The reallocation to equities included some for U.S. large caps, and we also brought small-cap U.S. equities up to their long-term target allocations. However, we continue to stick with the overall preference for U.S. large caps over small caps. One of our goals this year has been to be patient and act when the markets gave us opportunities.

But let's take a step back and look at a few of the bigger portfolio concepts we want to think about between now and the end of 2025. Once again, patience will likely be required, and investors should have a plan should further opportunities present themselves.

To begin, the S&P 500 Index (SPX) has rallied back near the all-time record high set earlier this year in mid-July after a brief setback. Saying that, we do not expect meaningful follow-through to the upside from current levels over the balance of this year. Uncertainty over the underlying strength of the economy, the pace of monetary policy adjustments (rate cuts), and ongoing geopolitical tensions could very well result in another market correction. If the economic recovery develops in early 2025, as we expect, we want to be ready to broaden equity-sector exposure in large caps as well as potentially increase allocations to other equity asset classes, including small-caps but also in large-cap sectors that we believe should benefit from the economic cycle's upturn, including Financials.

Another portfolio concept is investing in what we consider to be the building blocks of growth. We are already suggesting investors carry overweight (relative to their representation in the SPX) allocations in the Industrials and Materials sectors as well as our most-favorable-rated sector, Energy. The rapid growth in generative artificial intelligence (AI) is driving investment in electrical-grid upgrades and data-center buildouts that are needed to expand this new technology and greatly enhance productivity in a broad swath of industries outside of the traditional Information Technology sector.

The final portfolio concept we want to mention today is attempting to hedge against both economic and the previously mentioned geopolitical risks. A quick read of the headlines from virtually any news source highlights consumer concerns over the state of the economy and potential for recession as well as heightened geopolitical uncertainties, most recently the heightened tensions in the Middle East. Our favored Industrials sector should not only potentially benefit from the AI boom but also the push to increase manufacturing here at home and away from parts of Asia. We also continue to favor the Commodities segment as not only an inflation hedge but also as a hedge the global conflicts might limit the supply of some raw materials over the next 18 months. The bottom line? Have a portfolio plan and execute that plan when markets present opportunities.

Risk 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** are volatile. Stock values may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. **Small- and mid-cap stocks** are generally more volatile, subject to greater risks and are less liquid than large company stocks. **Bonds** are subject to market, interest rate, price, credit/default, liquidity, inflation, and other risks. Prices tend to be inversely affected by changes in interest rates. The **commodities markets** are considered speculative, carry substantial risks, and have experienced periods of extreme volatility. Investing in a volatile and uncertain commodities market may cause a portfolio to rapidly increase or decrease in value which may result in greater share price volatility.

Definitions

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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