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Investment Institute

Market Commentary

Weekly perspective on current market sentiment **June 5, 2024**

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Last week's S&P 500 Index: -0.5%

Buckle up for more volatility

Key takeaways

- There are a number of potential issues that could spark financial-market volatility in the months ahead.
- Our guidance emphasizes rebalancing in equities. We believe tech-related equities are vulnerable to uncertainties in long-term rates while inflation remains variable.

From the late-October 2023 lows through May 31, 2024 the S&P 500 Index (SPX) rallied a touch more than 28%. That is impressive by any standard. Further, the index posted an 11% gain for the January – May 2024 period, its third-best January – May stretch since 2000 according to the Stock Trader's Almanac. We continue to expect stock and bond market volatility this spring and summer. Will the old market bromide "sell in May and go away" work this year? That remains to be seen, but we are not expecting the SPX to gain meaningful upside ground from here through year-end.

There are a number of potential issues that could spark financial-market volatility in the months ahead. We believe the likely main volatility trigger is still the timing of potential Federal Reserve (Fed) interest-rate cuts. The next Federal Open Market Committee (FOMC) decision on June 12 will include policymakers' latest interest-rate projections. The Fed's March projections showed three expected rate cuts this year, but the latest fed funds futures contracts tied to upcoming FOMC meetings now price in one or at most two rate cuts, with the highest probability coming at the December meeting. We continue to expect two cuts this year and only one cut in 2025.

The Fed has said it needs to be convinced that both inflation and labor-market data are cooling. That means more than a month or two of lower inflation readings. The problem is that the latest data show only tentative and early signs of such a move. April inflation data out in May showed continued falling inflation in goods prices, but services inflation remains a problem. And, again in the jobs data, payroll and wage growth are moderating but not enough yet to give policymakers comfort to cut rates. This Friday's monthly labor report looms as a key data point before the Fed gathers.

Election surprises could also be one potential trigger for a pullback. Former President Trump's conviction on multiple felony charges in New York last week could swing polls again, but it's too early to know how soon or by how much. More potential polling surprises may be in store should the economy weaken through the summer as we expect. High prices for food and energy continue to depress consumer attitudes and sentiment. We continue to see these factors affecting election polls.

Our guidance emphasizes rebalancing in equities here. We believe tech-related equities are vulnerable to uncertainties in long-term rates while inflation remains variable. In fixed income, we suggest adding to intermediate-term investment-grade debt, either individual bonds or funds.

We also prefer a focus on quality. In equities, we still like the U.S. over international, U.S. large caps over mid and small caps, and sectors with cheaper-than-tech valuations and long-term growth potential like Industrials, Materials, Energy, and Health Care.

Equity downside, should we see it, can offer opportunities. Be ready. Have a plan. Buckle up.

Risk Considerations

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

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