



Market Commentary

Weekly perspective on current market sentiment

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Last week's S&P 500 Index: +0.7%

Extending the horizon

Key takeaways

- Markets look ahead and try to figure out what will occur down the road with the economy, inflation, interest rates, and consumer spending among other important factors.
- From a high altitude, we look for good gross domestic product (GDP) growth through the end of next year with more moderate growth in most of the rest of the developed world.

Weekends go by quickly, especially when markets anticipate that something might happen but are not sure what that might exactly be. As last week came to a close and the largest initial public offering (IPO) in history crowned the world's first trillionaire, the administration and the media were also floating the possibility that there could be a peace agreement in the U.S./Iran conflict over the weekend that would actually result in the Strait of Hormuz opening to shipping traffic in the very near future.

Indeed, an agreement was announced on Sunday, but the details of the memorandum of understanding have yet to be made public. The two parties have agreed to sign the document on Friday (June 19). And if the markets have not yet learned lessons from past reports of potential agreements, we want to curb our optimism until the details are released and the document signed. Do note that on Monday the president stated he expects the strait to be opened by the end of this week.

Clearly, financial markets have known that in the nearer term, it's all about the strait. Oil and some raw materials from various reserves have been enough to meet current global demand, but analysts believe meaningful shortages will exist if the strait is not opened over the next couple of months, if not sooner.

So that is what is happening now. But markets look ahead and try to figure out what will occur down the road, not only to the price of oil, raw materials, and IPOs but to the status of the economy, inflation, interest rates, and consumer spending among other important factors. It is with this in mind that we have extended the horizon of our economic and market projections through year-end 2027.

From a high altitude, we look for good GDP growth through the end of next year with more moderate growth in most of the rest of the developed world. We believe inflation will likely ease over the next 18 months but will be higher on an annual basis than the Federal Reserve (Fed) desires through next year. We think that results in a Fed that does not change the fed funds interest rate target over the course of our projection horizon.

Given that outlook, we continue to favor equities over fixed income and would direct new funds first toward favored U.S. Large Cap Equities and U.S. Mid Cap Equities. Investments to consider are artificial intelligence (AI) secular trends through the Information Technology sector but we also favor looking at the AI-related lower valuations in the Industrials, Utilities, and Materials sectors. Our most favored sector continues to be Financials. We think the S&P 500 Index will post record earnings next year and reach the 8,600 – 8,800 range.

We have not changed our outlook on fixed income and continue to favor investment-grade corporates with intermediate maturities (3 – 7 years) and essential-service and general-obligation municipal bonds with 9 – 21 year maturities.

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Risk considerations

Forecasts, estimates, and projections are not guaranteed and are based on certain assumptions and 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. **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. **Municipal bonds** offer interest payments exempt from federal taxes, and potentially state and local income taxes. Municipal bonds are subject to credit risk and potentially the Alternative Minimum Tax (AMT). Quality varies widely depending on the specific issuer. Municipal securities are also subject to legislative and regulatory risk which is the risk that a change in the tax code could affect the value of taxable or tax-exempt interest income.

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. Investing in the **Financial** services companies will subject an investment to adverse economic or regulatory occurrences affecting the sector. There is increased risk investing in the **Industrials** sector. The industries within the sector can be significantly affected by general market and economic conditions, competition, technological innovation, legislation and government regulations, among other things, all of which can significantly affect a portfolio's performance. **Materials** industries can be significantly affected by the volatility of commodity prices, the exchange rate between foreign currency and the dollar, export/import concerns, worldwide competition, procurement and manufacturing and cost containment issues. Risks associated with the **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. **Utilities** are sensitive to changes in interest rates, and the securities within the sector can be volatile and may underperform in a slow economy.

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