



Market Commentary

Weekly perspective on current market sentiment

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

Don't let “spooky” headlines obscure the big picture

Key takeaways

- Risks are part of every economic cycle. Today's inflation, interest-rate, and geopolitical concerns should not obscure our outlook for U.S. economic resilience through 2027.
- We encourage investors to focus on the big picture: Resilient consumer spending and artificial intelligence (AI)-related investment should support growth, creating investment opportunities in the coming year.

Pumpkin season is here. And for investors, there is no shortage of things that might go bump in the night. The days ahead bring important readings on economic growth and inflation and the November 3 midterm elections. Add elevated interest rates, Middle East tensions, trade uncertainty, and stretched household budgets to the mix, and investors have plenty to worry about.

While we expect the Federal Reserve (Fed) to keep its target interest rate unchanged at today's (October 28) meeting, we believe investors should focus less on this one decision and more on the path ahead. Elevated energy and other goods prices, geopolitical disruptions, and strong AI-related investment demand continue to fuel inflation pressures. In our view, these pressures should ultimately prompt additional Fed rate hikes and keep longer-term interest rates elevated. Along with tariffs, higher borrowing costs, and fading fiscal support, these headwinds are likely to slow the economy and could make the path through 2027 a bumpier one for investors.

But bumps in the road do not necessarily mean the economy is headed off course. We continue to expect the U.S. economy to prove resilient through 2027 even as growth slows. Consumer spending has remained buoyant while adequate market liquidity and supportive bank lending conditions should provide support. Corporate earnings have been strong, and businesses continue to invest in AI, infrastructure, and other productivity-enhancing technologies. Still, as the equity bull market enters its fifth year, we expect investors to demand that companies prove that they can keep the promise to grow earnings.

We believe these crosscurrents reinforce the importance of being selective rather than defensive. Within equities, we recently upgraded Industrials to favorable, reflecting attractive opportunities tied to AI infrastructure, power, defense, and aerospace. We moved Information Technology to neutral following strong gains and elevated expectations while maintaining our view that AI should continue supporting the sector's sales and earnings growth. Markets rarely offer investors an all-clear signal. There are always risks lurking around the corner, and the coming week may deliver a few surprises of its own. So, enjoy pumpkin season, but don't let every scary headline send your investment strategy running for the door. Keep the big picture in perspective. We believe the longer-term economic and investment backdrop still offers opportunities for investors willing to look beyond near-term uncertainty.

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