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Investment Institute

Market Commentary



Weekly perspective on current market sentiment **November 18, 2026**

Jennifer Timmerman
Global Macro Analyst

Last week's S&P 500 Index: +2.5%

Don't miss the forest for the trees

Key takeaways

- We believe markets may be too complacent about accumulating risks. In our view, firming inflation, potentially higher interest rates, elevated valuations, and unresolved geopolitical risks leave less room for disappointment.
- We remain constructive on the economic expansion and equity bull market, but we believe this environment favors patience and selectivity when adding equity exposure.

Markets have a way of looking past risks, especially when they emerge gradually rather than all at once. But risks that seem manageable in isolation can become more meaningful when they begin to reinforce one another. Today, we think complacency may be making it harder for investors to see the forest for the trees.

Inflation is one of those risks. Markets had grown more comfortable last summer with the idea that inflation was easing, but recent readings have challenged that view. The 12-month Consumer Price Index (CPI) rate accelerated to 4.0% in October, by our estimate — nearly double the Federal Reserve's (Fed's) 2% target. We expect underlying inflation pressures to firm into 2027, supported by resilient demand, lingering tariff pass-through, rising rental and medical costs, and tight supply chains for industrial goods.

Interest-rate risk may also be underpriced. With inflation still well above the Fed's target, we think policymakers have more work to do, and rates could move higher than markets expect. A higher Fed policy rate can quickly reach household budgets through higher borrowing rates for variable-rate credit cards and new auto loans, while financing costs for businesses likely will rise, too. Combined with higher labor and input costs, that could make profitable growth more difficult for companies and attractive returns harder for investors to earn.

Other markets also appear relatively comfortable with unresolved risks, too. Equity markets continue to reflect high expectations for the artificial intelligence (AI) investment boom, while oil and financial markets anticipate a resolution to Middle East tensions that has remained elusive. And there is room for disappointment, in our view, considering the full valuation (relative to historical average) of the S&P 500 Index.

What could pierce the veil of complacency? Historically, equity-market drawdowns of 10%-15%, often called corrections, typically do not start with an unexpected event. Instead, familiar risks usually accumulate until investors finally reassess their expectations. We note that corrections occur approximately every 1-2 years, historically. With the S&P 500 Index now roughly 18 months removed from its last correction, we believe a more pronounced pullback would hardly be unusual. Still, we remain constructive on the economic expansion and equity bull market and would not view a correction as necessarily signaling the end of either. The challenge is typically predicting the timing of a correction and its rebound. Rather than treating every decline as a signal to "buy the dip," we favor adding equity exposure through monthly or quarterly dollar-cost averaging with disciplined patience and selectivity. Keeping sight of the forest means recognizing the risks without losing sight of the opportunities that volatility may create.

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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.

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.

Definitions

Consumer Price Index (CPI) produces monthly data on changes in the prices paid by urban consumers for a representative basket of goods and services.

S&P 500 Index is a market capitalization-weighted index composed of 500 widely held common stocks that is generally considered representative of the US stock market.

An index is unmanaged and not available for direct investment.

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