MARKET SIGHT LINES

Dates to Watch, and Volatility. Again, It's Time In, Not Timing the Market

By Michael O'Keeffe, *Chief Investment Officer*

In a recent Sight|Lines, we discussed our expectations for higher volatility through the end of the year as we see the lagged effect of rate hikes kick in and investors remain focused on the potential for recession. Related to this, as we look forward to the last four months of 2023, we must be mindful of important dates when we'll learn more about key topics like inflation, Federal Reserve (Fed) policy, and consumer and business spending, which might trigger a market move, up or down. And as we do, we'll want to stay focused on composure, or how well we handle volatility and portfolio losses. In this Sight|Lines, we review key dates for the remainder of 2023, and revisit the concept that time in the market is more important than timing the market.

THE TAKEAWAY: AS USUAL, THERE ARE MANY KEY DATES ON THE CALENDAR THAT MAY TRIGGER MARKET VOLATILITY.

Our focus this year has included a review of inflation, Fed policy, the economy, and market data like interest rates and equity valuation levels. There is much to consider for the balance of 2023. In summary:

- We'll track inflation a couple times a month to see if the recent trend near the Fed's 2% target holds.
- Each month we'll see an update on employment, as a looser job market may support cooler inflation.
- There are two Fed meetings and the accompanying release of Fed meeting minutes offering greater detail on Fed thinking.
- We'll track the consumer, a driver of economic growth, and the impact higher interest rates may be having on spending.
- We'll monitor survey data to learn the views of business leaders, and watch business spending too.
- We'll be watching for the potential for a government shutdown at the end of September.
- And all of this translates to economic results, market reactions, and the potential for volatility.

As we prepare for the rest of the year, we're reminded – time in the market is better than timing the market.

IN-DEPTH: IN 2022 AND 2023, WE'VE TRACKED KEY DATES TO MONITOR INFLATION, FED POLICY, THE ECONOMY, MARKET LEVELS, AND VOLATILITY … WE'LL CONTINUE TO DO SO.

In 2022, inflation was elevated and the Fed shifted to a very hawkish monetary policy. Through the year, we monitored how inflation influenced Fed policy, and then how that policy affected interest rates, the economy, market levels, and volatility. And our work continues in 2023, with inflation cooling and the Fed slowing, if not stopping, its policy shift. So, we continue to track the data and its impact on market levels and volatility. Going deeper:

- We'll track inflation see if the recent trend near the Fed's 2% target holds:
  - In last three months the consumer price index averaged 0.16%, close to 0.17% – the monthly equivalent to the Fed's 2% target. CPI updates release on Sept. 13, Oct. 12, Nov. 14, and Dec. 12.

    - In last three months the producer price index averaged 0.0%, well below 0.17%. PPI updates will be available on Sept. 14, Oct. 11, Nov. 15, and Dec. 13.
- The job market has been tight but loosening some. An even softer job market relieves inflation pressure:
    - The U.S. economy added 187,000 jobs in August, showing a deceleration compared to last year.
    - Unemployment filings have been on the rise, most recently at 216,000, but still below early June levels.
    - The unemployment rate increased to 3.8% in August. We'll see updates on employment around Oct. 6, Nov. 3, and Dec. 8.
- Tracking Fed policy will remain important:
    - The Fed meetings conclude on Sept. 20 and Dec. 13, after which policy updates are shared.
    - Fed meeting minutes will be released on Oct. 11 and Nov. 22, offering greater detail on Fed thinking.
- The consumer drives about two-thirds of economic growth in the U.S.:
    - We'll monitor retail sales on Sept. 14, Oct. 17, Nov. 15, and Dec. 14.
    - We'll track sentiment on Sept. 15, Nov. 10, and Dec. 8.
- The direction of the business side of the economy, tied to equity earnings, remains important. We'll watch:
    - PMI reports to see if weak demand slows business activity and production further.
    - Weaker credit conditions, which are expected to slow capital expenditures.
- There is meaningful potential for a government shutdown at the end of September:
    - Brian Gardner, Stifel's Chief Washington Policy Strategist, discusses a crowded agenda with several "must pass" items for Congress this fall.
- We'll monitor economic results, market reactions, and the potential for volatility:
    - Second quarter GDP rose 2.1%. Economists are expecting a slowdown in the second half of 2023.
    - The VIX Index, a measure of S&P 500 Index volatility, has averaged 17.5 this year, well below its 20-year average of 19.7.

We should always be ready for increased market volatility. Remember, timing the market is hard. It seems easy to sell, but it's challenging to know when to jump back in. Time in the market is better than timing the market. Based on our analysis $1,000 invested in the S&P 500 over the last 20 years would be worth $6,879 today. If you miss the top 10 trading days, that terminal value falls to $3,152. Miss the top 30 trading days, and it falls to $1,241.

CONCLUSION

As we move through time, my team and I monitor a lot of data, and by looking at the release calendar, we can get ready for important updates in the future. We can regularly update our views looking forward on the economy and markets, also gauging the prospect of higher volatility. Doing so is essential, as higher volatility can challenge an investor's composure, or willingness to stay invested through difficult times. And keeping composure is important, as we know that time in the market is better than timing the market.

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Asset allocation and diversification do not ensure a profit and may not protect against loss. There are special considerations associated with international investing, including the risk of currency fluctuations and political and economic events. Investing in emerging markets may involve greater risk and volatility than investing in more developed countries. Due to their narrow focus, sector-based investments typically exhibit greater volatility. Small company stocks are typically more volatile and carry additional risks, since smaller companies generally are not as well established as larger companies. Property values can fall due to environmental, economic, or other reasons, and changes in interest rates can negatively impact the performance of real estate companies. When investing in bonds, it is important to note that as interest rates rise, bond prices will fall. The Standard & Poor's 500 index is a capitalization-weighted index that is generally considered representative of the U.S. large capitalization market. The S&P 500 Equal Weight Index is the equal-weight version of the widely regarded Standard & Poor's 500 Index, which is generally considered representative of the U.S. large capitalization market. The index has the same constituents as the capitalization-weighted S&P 500, but each company in the index is allocated a fixed weight of 0.20% at each quarterly rebalancing. The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ. The DJIA was invented by Charles Dow back in 1896. The MSCI EAFE index (Europe, Australasia, and the Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada. VIX is a trademarked ticker symbol for the Chicago Board Options Exchange Market Volatility Index, a popular measure of the implied volatility of S&P 500 index options.

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