

Russell's view: A lower S&P 500® target

As of August 15, 2011

By: Erik Ristuben, Chief Investment Officer – Client
Investment Strategies

A message to financial advisors and their clients

Why did Russell lower its year-end 2011 S&P 500® target, and how big are the policy headwinds facing the U.S. and Europe?

As events continue to unfold about the global markets, Russell Investments' experts will continue to share their insights with you.

Russell lowers year-end 2011 S&P 500 target

In recognition of the weaker economic environment and increased uncertainty regarding fiscal policy and sovereign debt in the U.S. and Europe, Russell has lowered its year-end 2011 S&P 500® target from 1372 to 1300.

That being said, stock fundamentals are solid, and current corporate earnings and balance sheets are strong. We believe that the current equity market level – and certainly the lows of last week – is based on the market pricing in a heightened probability of the U.S. slipping into recession in the near future. If, as Russell expects, the economic data stabilize in the third quarter and modestly improve in the fourth quarter, we believe that the stock market will rally as the recession scenario fades in likelihood.

Policy headwinds

Notwithstanding Russell's view that the U.S. economy will skirt a formal recession, the U.S. and Europe face significant policy issues. The market's concern over the potential outcomes of these hard-to-resolve issues is currently – and will likely continue to be – a drag on stock market multiples (price relative to current earnings). It is primarily for this reason that Russell is lowering its end-of-year forecast.

Investors should note that stocks currently face an unusually wide range of year-end market outcomes. If recent market and consumer sentiment prove to be too much of a hurdle for the currently struggling economy to overcome, the chance of recession is not insignificant. If policy errors occur, then quite negative market results could be expected. On the other hand, if policy makers continue to make slow and painful progress on the issues of the day, and economic growth rates begin to improve, stock prices could rally considerably.

The big meeting

While we are on the subject of policy challenges, all eyes will be on Europe tomorrow and the outcome of the meeting between German Chancellor Angela Merkel and French President Nicolas Sarkozy during which they will discuss Europe's ongoing debt crisis. The market is certainly hoping for an indication that Europe might be moving closer toward a resolution. Tomorrow will tell.

Going forward

Thank you for reading this series of postings. They have provided an important forum for communicating Russell's views on timely investment issues. We will continue to communicate as market circumstances warrant.

In the meantime, when the markets are less volatile, the Russell blog is a good source of information about a wide variety of investment topics. Note that the Russell Market Week in Review video filmed every Friday can also help you stay informed about events impacting the global markets.

In closing, remember that with so much uncertainty present, investment discipline and diversification can serve investors well.

If you have any questions about this article, please contact your Russell representative or financial advisor.

Investing in capital markets involves risk, principal loss is possible. There is no guarantee that the stated outcomes will be met. It contains forecasting or other forward-looking information; the information is inherently uncertain and may be incorrect.

These views are subject to change at any time without notice based upon market or other conditions and are current as of the date at the top of the page. It is made available on an "as is" basis. Russell Investments does not make any warranty or representation regarding the information. While all material is deemed to be reliable, accuracy and completeness cannot be guaranteed.

This is not an offer, solicitation or recommendation to purchase any security or the services of any organization.

S&P 500 Index: An index, with dividends reinvested, of 500 issues representative of leading companies in the U.S. large cap securities market.

Diversification does not assure a profit and does not protect against loss in declining markets.

Nothing in this presentation is intended to constitute legal, tax, securities, or investment advice, nor an opinion regarding the appropriateness of any investment, nor a solicitation of any type. The contents of this presentation are intended for general information purposes only and should not be acted upon without obtaining specific legal, tax, and investment advice from a licensed professional concerning your own situation and any specific investment questions you may have.

Russell Investment Group, a Washington USA corporation, operates through subsidiaries worldwide, including Russell Investments, and is a subsidiary of The Northwestern Mutual Life Insurance Company.

Copyright © Russell Investments 2011. All rights reserved.

Russell Financial Services, Inc., member FINRA, part of Russell Investments.

First used August 2011. RFS 11-6451