

You are not alone in wondering why the stock market continues its record run while chaos seems to surround every aspect of our lives. From a record number of COVID infections to tensions on Capitol Hill, nothing seems to disrupt the US stock market. Last Wednesday, January 6, as rioters descended on the Capitol Building, shutting down Congress, the stock market held its gains throughout the day. In fact, financial markets barely reacted to this turmoil, with the Dow Jones Industrial Average increasing 0.40%, closing at a record high. The short term disconnect between the stock market and the economy has never been more evident.

After all the bad news of 2020, the S&P 500 grew by more than 15% even despite a major correction in March. How does the stock market continue to thrive and expand considering such seemingly apocalyptic events? A phrase heard countless times over the last year is that "over the short term, the stock market is not the economy". Googling this phrase showed that it goes as far back as 2009, hitting peak popularity in November 2020. What this phrase entails is that the day in, day out performance of the stock market is more a reflection on the future profits and growth of America's largest companies and not what is happening in the day to day lives of ordinary Americans.

It's important to understand that, over the short term, the stock market may not typically reflect the broader economy, and certainly did not in 2020. In February 2020, the stock market followed the steep economic decline brought on by COVID related shutdowns. It then abruptly reversed course in March and recovered upon news of new Federal Reserve's monetary stimulus measures even while unemployment spiked around 20%. The actions by the Fed supported the market and gave the not-so-subtle sign that they will do whatever is necessary to support the economy and that *hopefully*, the worst is behind us. Markets were right and the unemployment rate has since improved to 6.7% as of December 2020. This is not to say that many Americans aren't still struggling, but the market is hopeful in pointing towards continued economic recovery.

Over the long term, the stock market does tend to follow the directional trend of the underlying economy. Many analysts see the stock market continuing its growth trend into 2021, driven by what appears to be a more robust and recovering economy. One often discussed theme is that COVID forced an inevitable restructuring of the economy at a much faster pace than originally anticipated. This should bode well for growth prospects over the long term. While we expect continued periods of both economic and stock market volatility in the short term, maintaining a long-term focus on goals and objectives allows us to look beyond current chaos while putting our focus towards making investment decisions that should thrive in a post-pandemic world.

Because of the disconnect between the markets and the economy in the short term, along with the expectation that markets follow economic growth prospects in the long term, HORAN's investment committee is working diligently to research and implement adjustments within our client's portfolios. The two primary adjustments would be as follows: First, we believe it is a good time to rebalance portfolios back to "neutral" to capture some of the profits that the market has blessed investors with. Second, we are looking at revamping our real assets exposure. Currently we utilize a basket of Real Estate Investment Trusts (REITs) and Master Limited Partnerships (MLPs) to provide a sizeable income stream to our clients while diversifying out of traditional asset classes like stocks and bonds. With trillions of dollars of monetary and fiscal spending



though, we believe over the long term, the prospect of inflation is increasing. We are exploring adjusting our real assets exposure to account for such an environment by including an investment in commodities and focusing on investments in which returns are positively correlated.

HORAN is still actively researching the impact of these changes on our portfolios and we expect to have a final decision made by the end of the month. You will be notified of any upcoming changes prior to the trades being implemented within your portfolio.

If you have any questions about your portfolio or the markets, please consult your HORAN Advisor at 513.745.0707.

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