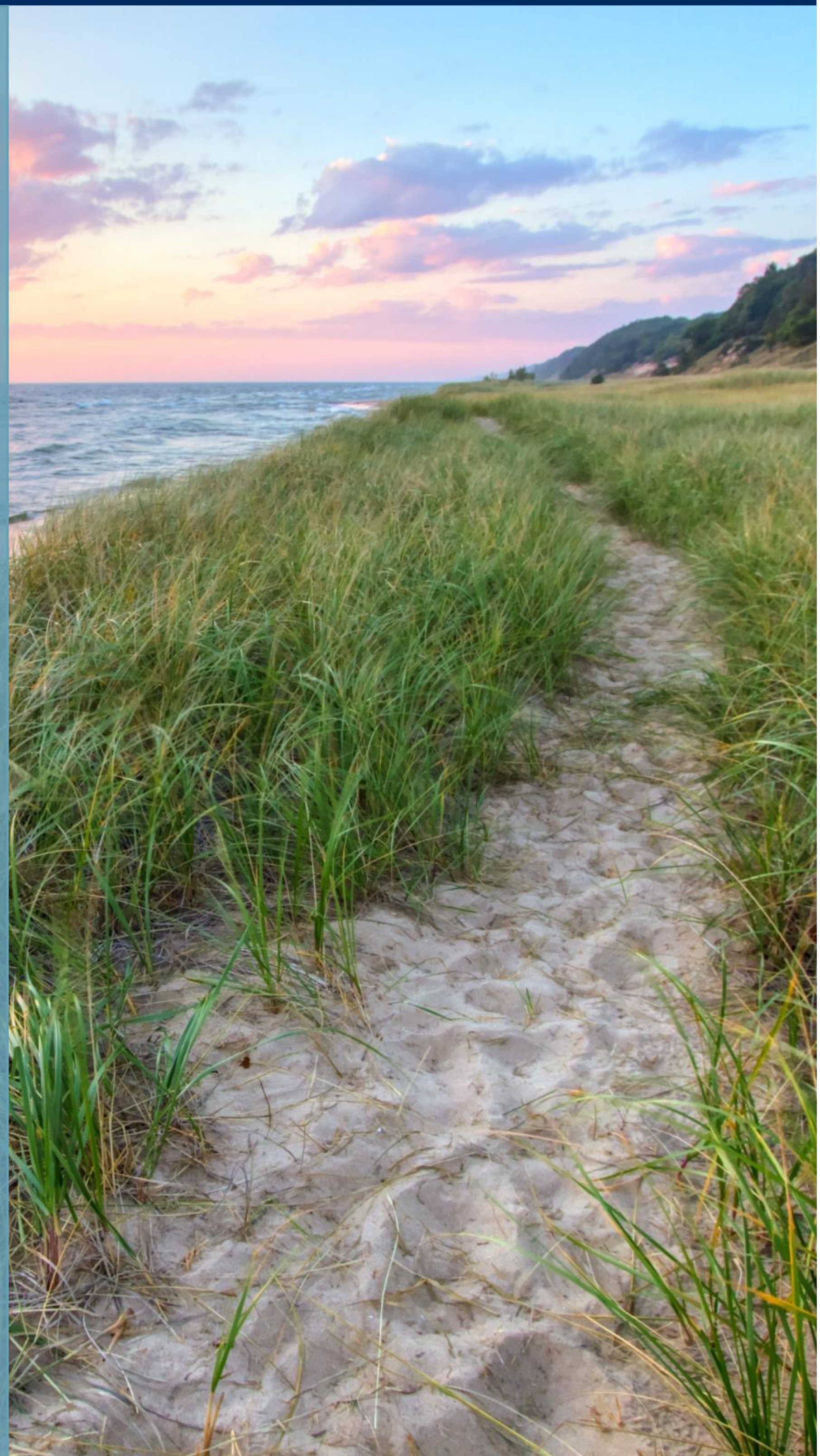


HORAN Capital Advisors

Quarterly Investor Letter

Summer 2023

"Successful investing is about having people agree with you… later."
- Jim Grant

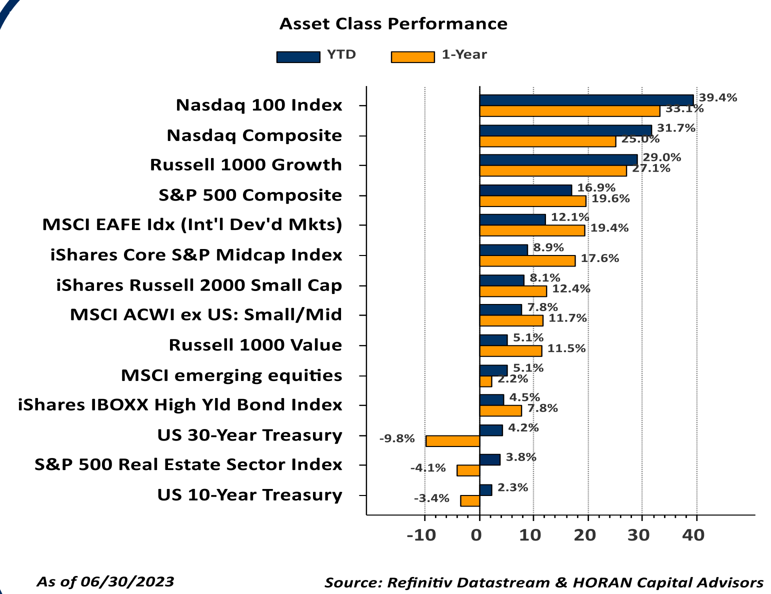
CELEBRATING 75 YEARS
75
SERVING YOU

HORAN®

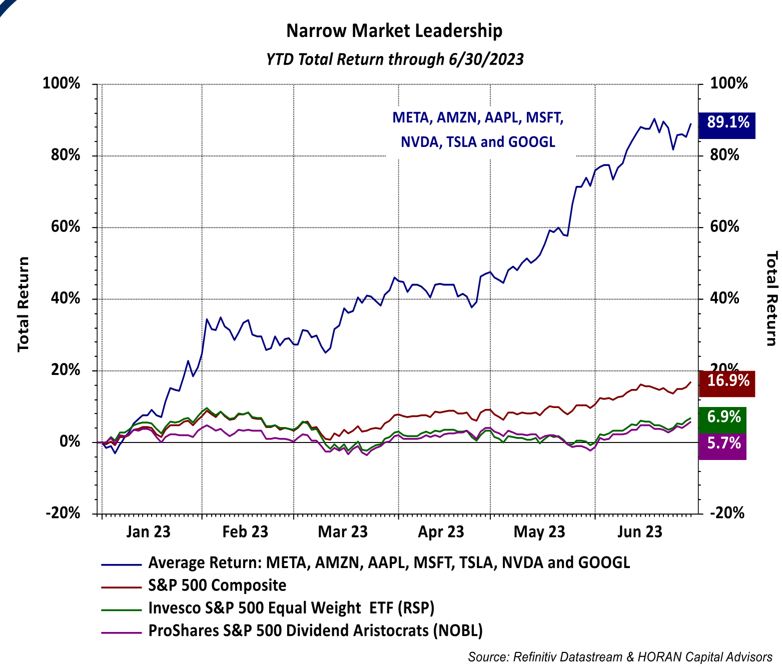
513.745.0707 | horanwealth.com

Strong Upwards Momentum

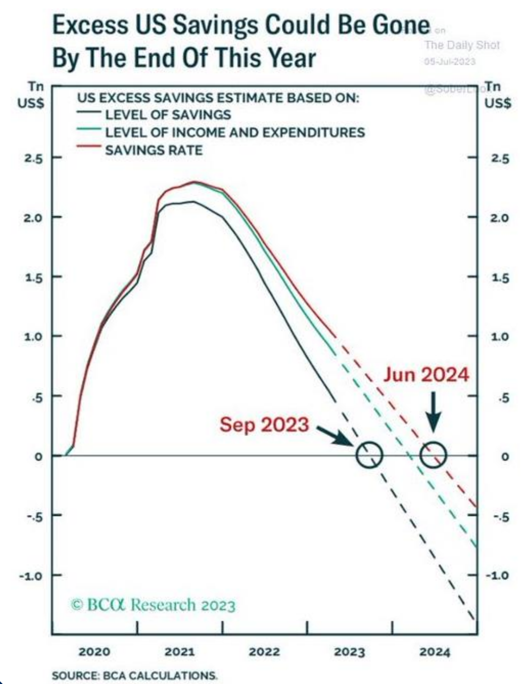
With the second quarter in the rearview mirror, some equity markets in the U.S. generated record beating returns. The Nasdaq 100 Index was up 39.4%, a record six month return over the index's thirty-eight year history. The S&P 500 Index was up a respectable 16.9%. A common theme in the first half of the year was the attention artificial intelligence (A.I.) related stocks received. The A.I. theme does not seem to be one that will disappear as applying A.I. to one's business is not something that occurs overnight. In any other year, double digit returns from international stocks would be viewed favorably by investors, but international developed returns up 12.1% trailed their U.S. large cap counterparts.



As noted in our Spring Investor Letter, the year-to-date return for the S&P 500 Index has been centered in a handful of stocks. This narrow breadth carried over into the second quarter. The near chart shows the average return of the so-called "Big Seven" group of stocks in the first half of the year, which contributed a significant portion of the return for the Nasdaq 100 Index. Lagging far behind is the S&P 500 Index as well as the highest quality dividend payers, the S&P 500 Index Dividend Aristocrats, which was up just 5.7%. Although narrow market breadth is viewed as a negative market factor by pundits, forward returns in this environment tend to be strong as market returns tend to broaden out to a larger group of stocks. Some of this broadening seemed to be occurring in June.



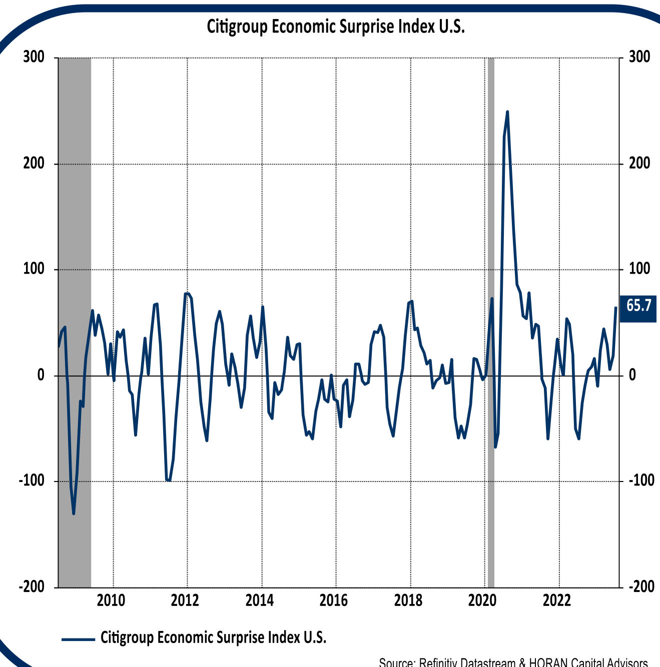
According to Howard Silverblatt, Senior Index Analyst at S&P Dow Jones Indices, market breadth & contribution improved from May to June, but returns were still concentrated in the top issues in the Index. Through June, forty-four stocks accounted for the June 2023 year-to-date gain, compared to just eight stocks for the year-to-date gain through May 2023. As noted in a recent NY Post article narrow breadth, similar to this year, "has occurred four other times and led to super bull markets 6, 12, and 24 months later three times and ditto for 12, and 24 months the fourth — all bullish." This broadening of performance contribution would be healthy for continuing the market advance through the second half of the year.



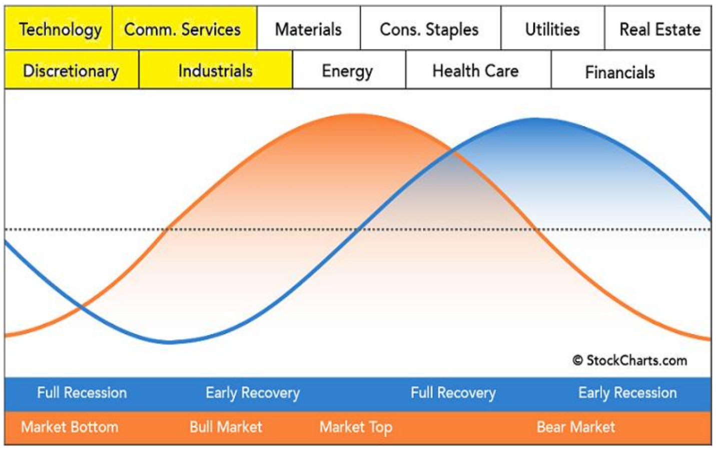
Recession

Beginning the middle of last year, many economists and market strategists were calling for a recession to occur by mid-year this year. With half of this year behind us, a recession still has not occurred. As our regular readers know, we have maintained that a technical recession occurred in 2022 when real GDP growth was negative in both the first and second quarter. Just as a broken clock is right twice a day, the repeated recession call by some will eventually be correct.

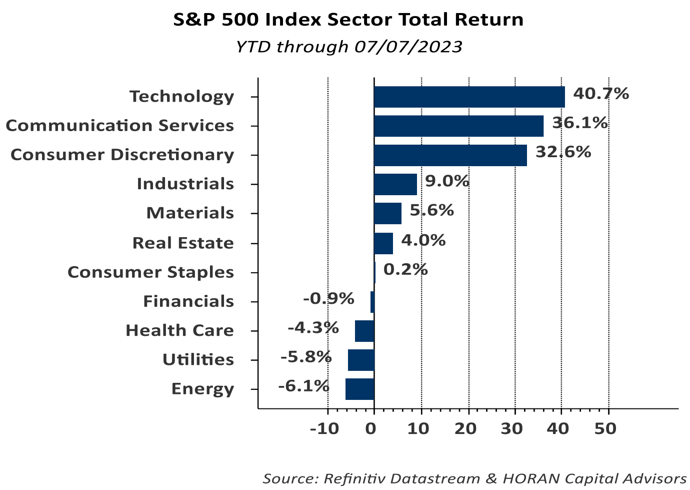
There are many reasons one might be nervous about the future direction of the economy as there remain numerous conflicting data points. However, with the consumer accounting for 70% of economic growth, their excess savings (see near chart) built up during the pandemic remains a tailwind for the economy for at least the balance of this year. It should be noted, although the unemployment rate is low at 3.60%, the monthly year-over-year rate has moved above the 12-month moving average of 3.56%. Like many of the economic data points this year, this reading historically has been associated with the onset of a recession. In the U.S., most of the reported economic data has exceeded expectations with the Citigroup Economic Surprise Index reading of 65.7%. Readings above zero indicate more of the data is surprising to the upside.



Often the equity market itself provides insight into where the market and economy are in relation to the

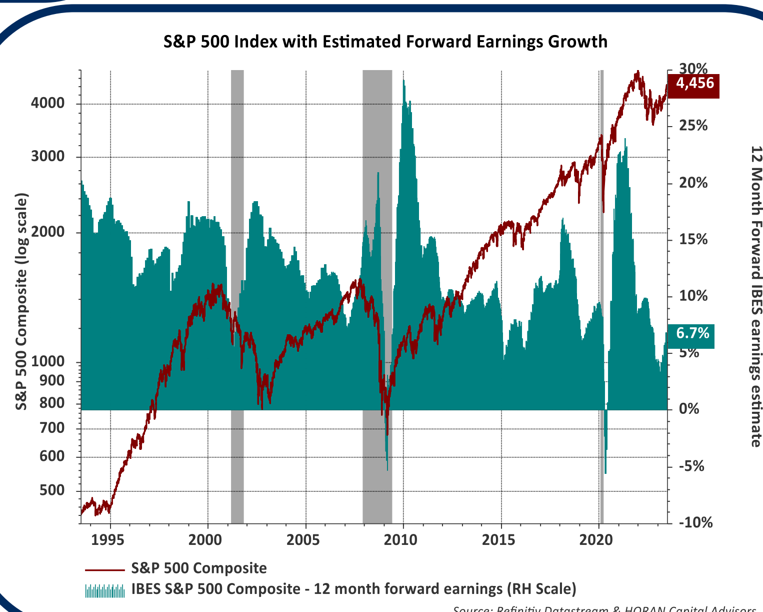


market and economic cycle. The near chart displays a blue graph and bar that represent the economic cycle and the orange graph and bar represent the equity market. The dashed centerline marks the contraction and expansion threshold for the economy. Listed across the top are the equity sectors. Highlighted in yellow across the top are the four top performing S&P 500 Index sectors year to date through July 7. Just considering the performance of these specific sectors suggests the economy is in the early recovery phase of the business cycle while the equity market is entering its bull market phase. Also worth noting is the fact the orange line, that represents the equity market cycle, leads the blue business cycle line. The equity market does have a tendency to anticipate economic events and serve as a reasonable forward-looking indicator.



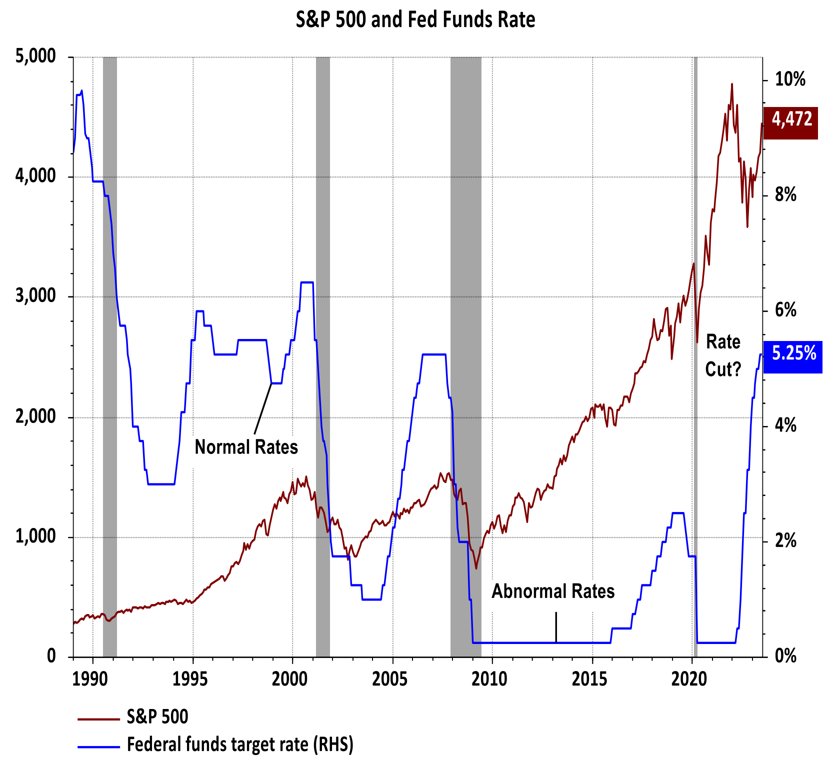
Growth In Corporate Earnings

Our favorable view of the market coming into 2023 was partially due to our view around earnings growth for companies. We believed company earnings would slow in 2023, but not collapse. In fact, earnings growth for 2023 is now expected to be a positive 1.3% and 11.7% in 2024. As the near chart shows, analyst expectations are once again projecting an increase in the growth rate of forward earnings for the S&P 500 Index of 6.7%. This earnings growth rate is above the 3.3% rate reported in February. Additionally, with inflation coming down, companies will face less need to pass on higher input costs as their cost structure stabilizes. This will have a favorable impact on corporate margins; thus, sustaining favorable earnings growth in the back half of the year.



The Fed

The past year has seen the fastest interest rate hikes by the Fed since the 1970s. Over this period, the outlook for future Fed moves has also shifted. In early 2023, Wall Street sentiment indicated the Fed would cut interest rates in 2023 – sometime in the summer. As we enter July, the rhetoric has shifted to not seeing cuts until 2024. At HORAN we have maintained the view that the Fed will not be cutting anytime soon, and we will see a more moderate hiking stance from the Fed. Additionally, we view this as a return to normalcy and describe the past decade of zero overnight rates as abnormal when discussing Fed fiscal policy. This moderate rate hiking is consistent with the comments from Chairman Jerome Powell in his recent statements. If the economy remains strong and inflation continues to remain "sticky," the Fed could maintain its current rate trajectory.



Source: Refinitiv Datastream& HORAN Capital Advisors

The Second Half

It is looking more likely that the bear market low was set in October of 2022. The S&P 500 Index is up almost 25% off that low, nearly recovering the loss that occurred from January 2022 to the October 2022 low. As the table on the next page from LPL Research shows, "recovery times vary widely and depend on the economic environment. When bear markets are not accompanied by a recession, market recoveries only took an average of 10 months to reach a new record high. It might be going out on a limb to predict a 10% rally and a new record high for the S&P 500 by mid-August, but the historical pattern for young bull markets suggests stocks may have some more room to run here." What is almost certain is a further equity market recovery will not occur in a straight line should it unfold.

For index investors, the S&P 500 has become more concentrated in mega cap stocks as the "Big Seven" stocks have accounted for most of the index returns and now represent almost 30% of the entire market capitalization of the index.

Bear Market Recoveries Vary Widely in Length

Months For S&P 500 Index To Recover From A Bear Market

Month of Peak	Month of Low	Length of Bear (Months)	% Decline	Length of Recovery (Months)	Recession?
August-56	October-57	14	-22%	11	Yes
December-61	June-62	6	-28%	14	No
February-66	October-66	8	-22%	7	No
December-68	May-70	17	-36%	21	Yes
January-73	October-74	21	-48%	69	Yes
September-76	March-78	18	-19%	17	No
November-80	August-82	21	-27%	3	Yes
August-87	December-87	4	-34%	20	No
July-90	October-90	3	-20%	4	Yes
July-98	August-98	1	-19%	3	No
March-00	October-02	31	-49%	56	Yes
October-07	March-09	17	-56%	49	Yes
April-11	October-11	6	-19%	4	No
September-18	December-18	3	-20%	4	No
February-20	March-20	1	-34%	5	Yes
January-22	October-22	10	-25%	8*	No*
Average For All Bear Markets		11	-30%	19	
Average Bear Market (In Recession)		16	-36%	27	
Average Bear Market (No Recession)		7	-23%	10	

* Not completed yet

Source: LPL Research, CFRA, FactSet 06/12/23

A bear market is when a stock index or security closes 20% or more below a 52-week high. For this analysis, we take liberty with this and included 19%.

All indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

The modern design of the S&P 500 Index was first launched in 1957. Performance before then incorporates the performance of its predecessor , the S&P 90.

As a recent Barron's article noted about the S&P 500 Index, "Rather than providing exposure to a diversified basket of 500 companies, the index's mega cap-tech concentration poses considerable risk if there is another tech bubble fueled by artificial intelligence. Its two biggest holdings—Apple and Microsoft—alone account for 14% of the index." Because of this return concentration, Nasdaq is planning a 'special rebalance' of the Nasdaq 100 Index during the last week of July. The Nasdaq states the special rebalance will occur to "address overconcentration in the index by redistributing the weights." This "Big Seven" group of stocks account for 55% of the Nasdaq 100 Index. As the second chart on the opening page of the Investor Letter notes, there are areas of the market that have not participated in the rally, specifically, high quality dividend paying stocks and even small company stocks. These areas continue to provide an opportunity for investors, in an environment where we believe the economy is continuing to see growth.

Thank you for your continued confidence and support in HORAN Capital Advisors and we are always available to answer your questions and discuss our outlook further. Please be sure to visit us for company news, reports, and our blog at https://horanassoc.com/insights/market-commentary-blog.