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HORAN Capital Advisors

Quarterly Investor Letter

Spring 2024

"Even the most intelligent investor is likely to need considerable willpower to keep from following the crowd."
- Benjamin Graham

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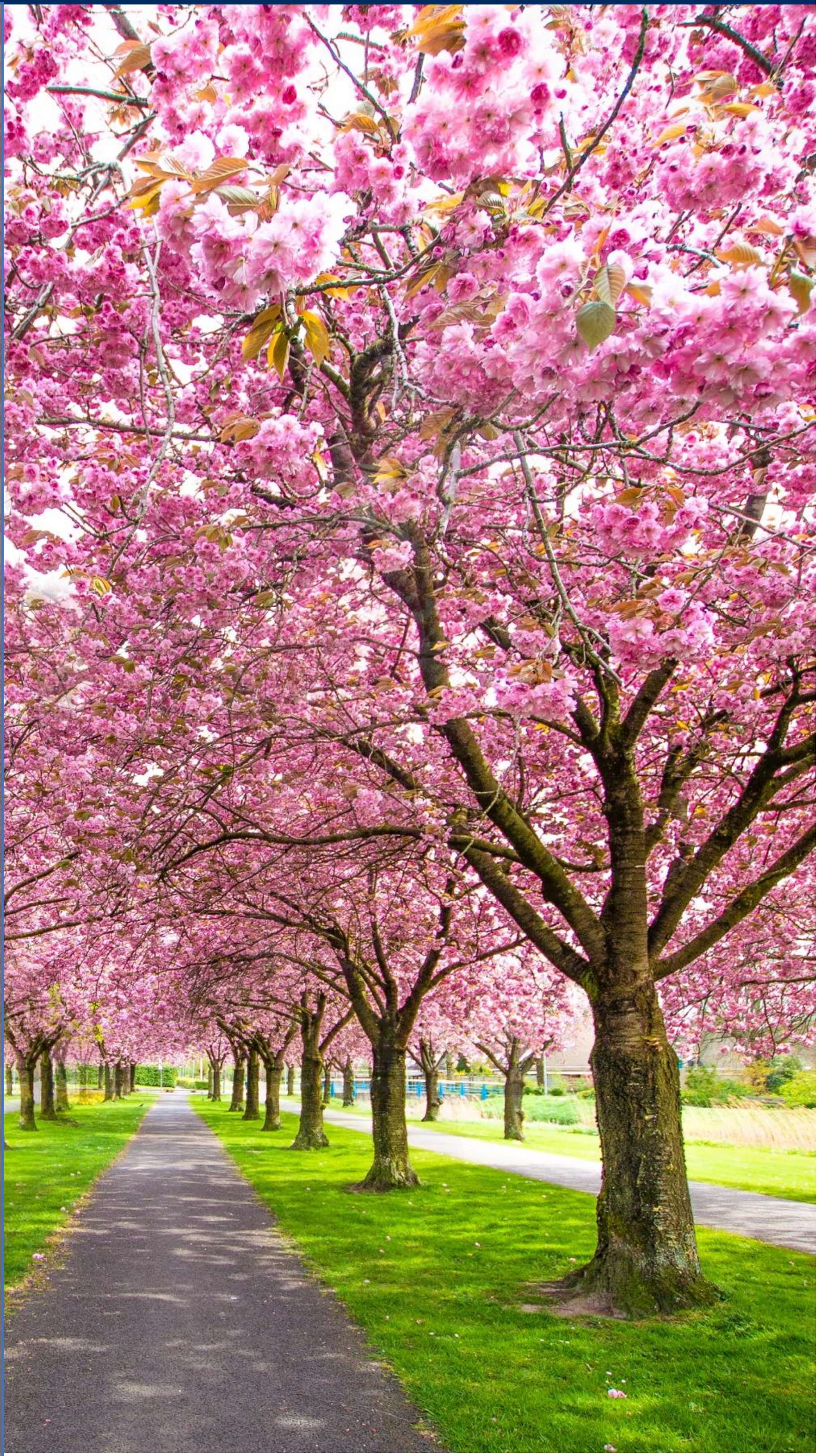

HORAN WEALTH

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Back to Back

With the end of the first quarter in the books, the S&P 500 Index return in Q1 totaled 10.56%. This double-digit return follows the fourth quarter 2023 return of 11.69%. Since 1945 this marks only the eighth time the S&P 500 Index has achieved back to back double digit quarterly gains. The total return for the two quarters combined equals 23.48% which might lead one to expect the return for the balance of this year to be unexciting. However, as the near table shows, one-year returns following two strong quarters averages 12.27%. As is sometimes said, strength begets strength.

With the equity market seemingly knowing only one direction, i.e., up, investors should note, following strong unrelenting advances like just experienced, markets do tend to correct or pullback in the short term to digest these strong gains. This is evident in the short-term returns noted in the table as well as seen in the near chart showing monthly returns.

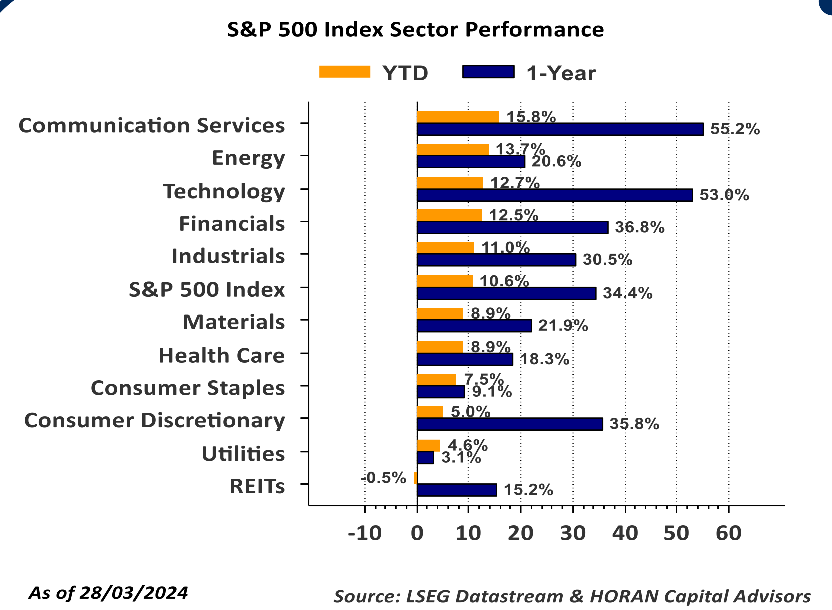
S&P 500 Up 10%+ In Back to Back Quarters: 1945 - 2024

Second 10%+ Quarter	First Quarter (%)	Second Quarter (%)	S&P 500 Performance (%) One Month	Three Months	Six Months	One Year
12/31/1954	10.61	11.36	1.81	1.67	14.04	26.40
12/31/1958	10.65	10.29	0.38	0.42	5.90	8.48
6/30/1975	21.59	14.19	-6.77	-11.89	-5.25	9.55
3/31/1986	16.04	13.07	-1.41	5.00	-3.17	22.10
9/30/2009	15.22	14.98	-1.98	5.49	10.63	7.96
12/31/2010	10.72	10.20	2.26	5.42	5.01	0.00
3/31/2012	11.15	12.00	-0.75	-3.29	2.29	11.41
3/31/2024	11.69	10.56		*returns not available yet*		
Average			-0.92	0.40	4.21	12.27
Median			-0.75	1.67	5.01	9.55

Source: © Bespoke Investment Group, The Kirk Report

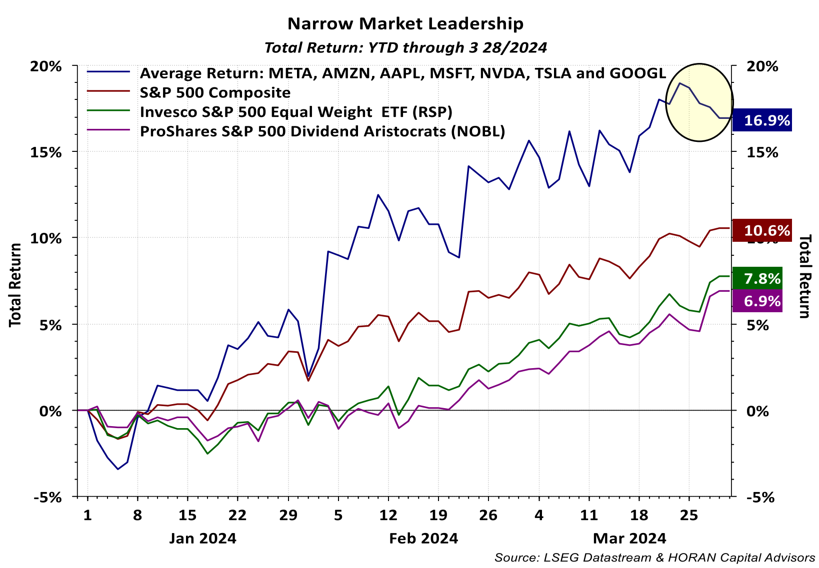
Source: StockCharts.com

In the first quarter, all but one S&P 500 Index sector achieved a positive return. The lone negative returning sector was Real Estate, down -0.55%. The sectors reporting a double-digit return were: Communication Services, Energy, Technology, Financials and Industrials. As the bar chart below shows, the more defensive oriented sectors, Health Care, Consumer Staples and Utilities, were the weaker returning ones. The top performing sectors tend to be more economically sensitive ones, and with the market rewarding those sectors over the defensive ones, investors might just be anticipating a better economic environment.

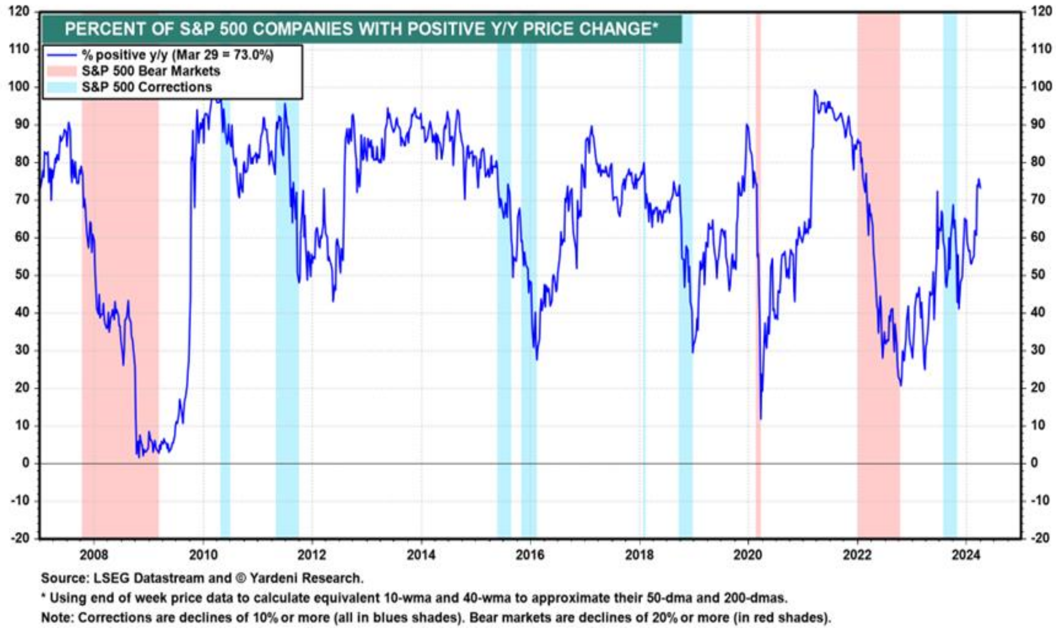


A Broadening Market?

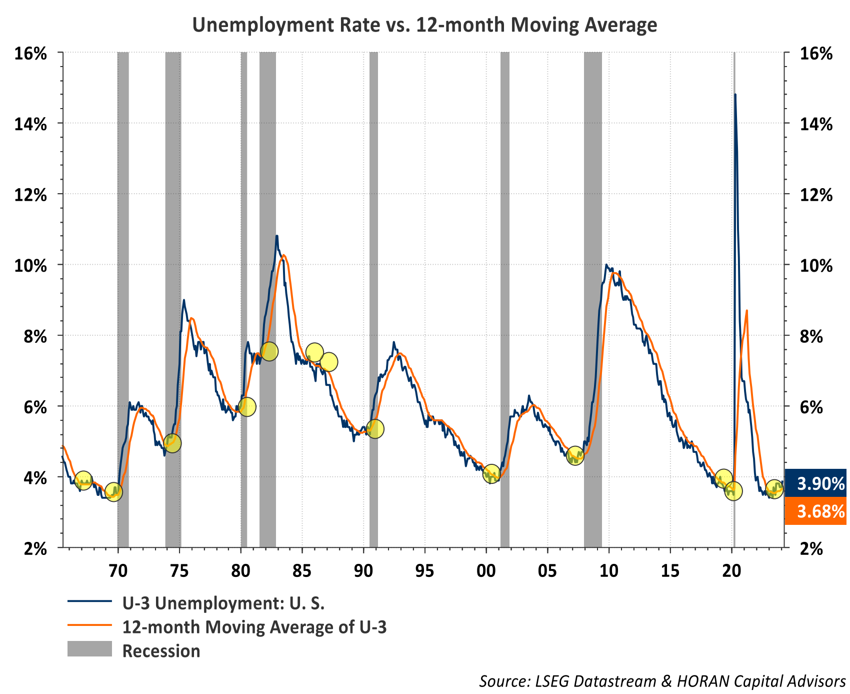
In our last Investor Letter we noted the strength of the so-called Magnificent Seven stocks and this narrow group of stocks accounting for a significant amount of the equity market's return since the beginning of 2023. More recently we have begun to see some signs of weakness in this group of seven stocks as seen on the near chart. In the first quarter, two of the seven stocks experienced declines: Apple (AAPL) down -10.8%; and Tesla (TSLA) down -29.3%. Alphabet (GOOGL) underperformed the market up 8.0%. These returns compare to the S&P 500 Index return of 10.6%. One factor that would contribute to the U.S. equity market continuing its advance this year is for a larger number of stocks to participate in the advance. As the chart on the next page shows, an increasing number of stocks do have positive year over year returns; however, in many cases, the return lags the return of some of the Magnificent Seven stocks and many of the companies are smaller in size. Even if a smaller firm has a larger return, with the S&P 500 Index being capitalization weighted the larger companies contribute more to the overall return of the Index.



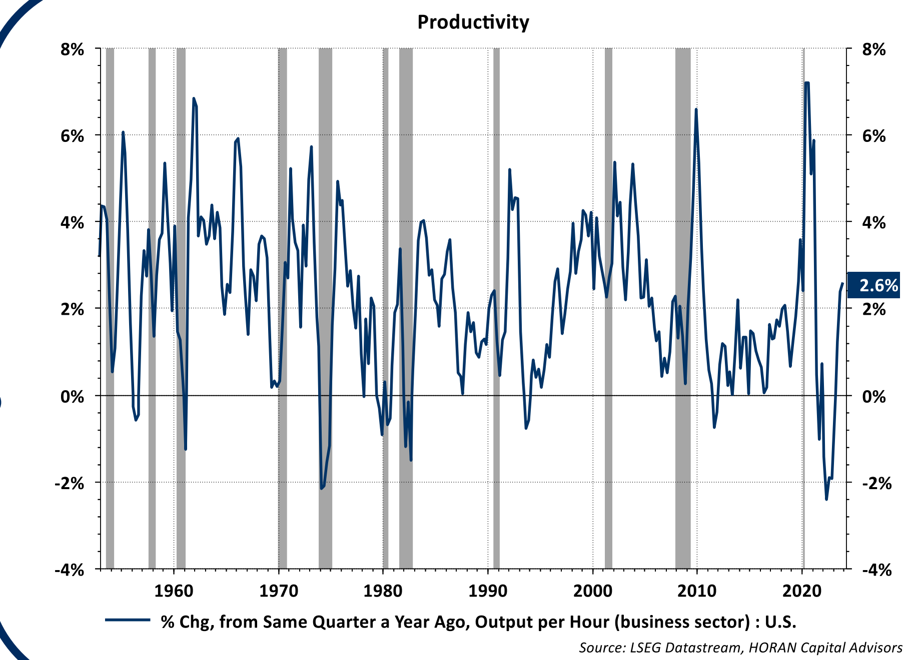
One and Done



When the year began, many strategists were forecasting the Federal Reserve would lower interest rates six times this year with the first cut in March. As we wrote in our Winter Investor Letter we believed the economy did not need a rate cut and that a recession likely would be averted this year. The Fed left short term interest rates unchanged at its March meeting, and now strategists, along with the Fed Funds futures market, anticipate three interest rate cuts this year. In mid-March, Atlanta Fed president Raphael Bostic told reporters he projects just one interest rate cut in 2024. Then in the last week of March, Fed governor Chris Waller said, “There is no rush to cut the policy rate.” There are several factors behind reduced expectations for rate cuts: fourth quarter GDP growth of 3.4% exceeded expectations; increasing manufacturing new orders (improved product demand); a continued tight labor market with the unemployment rate under 4%; the latest report on inflation coming in higher than expectations; and oil prices on the rise with West Texas Intermediate Crude Oil at $83.10 per barrel up from $68.61 per barrel in December. The higher price of oil is one factor that likely keeps the Fed cautious on initiating a first interest rate cut. All in all, the economy is performing better than expectations and inflation is stubbornly elevated, both contributing to the Fed’s patience to begin reducing the Fed Funds rate.

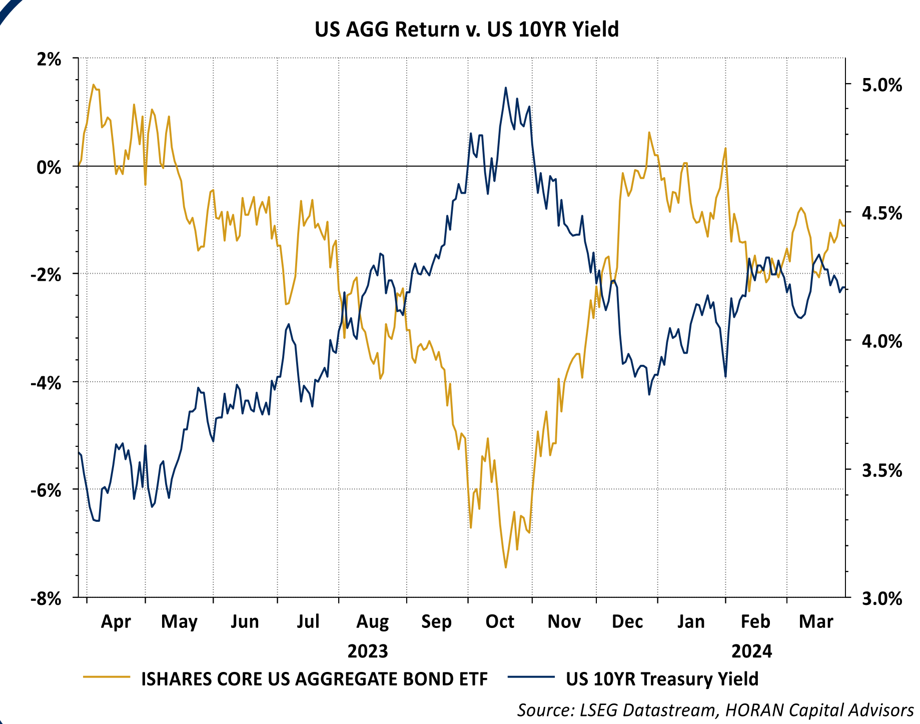


There are factors that suggest the Fed is closer to cutting rates. While headline inflation has dropped significantly, falling into the Fed targeted 2% range appears to be problematic. Although strong employment and therefore wage pressure remains elevated, one factor missing following the pandemic was growth in productivity. Beginning in mid-2023, worker productivity turned positive. All else being equal, higher output per hour offsets some of the wage pressure with companies producing more goods without the need to work longer hours; thus, improving living standards.



Repricing Expectations

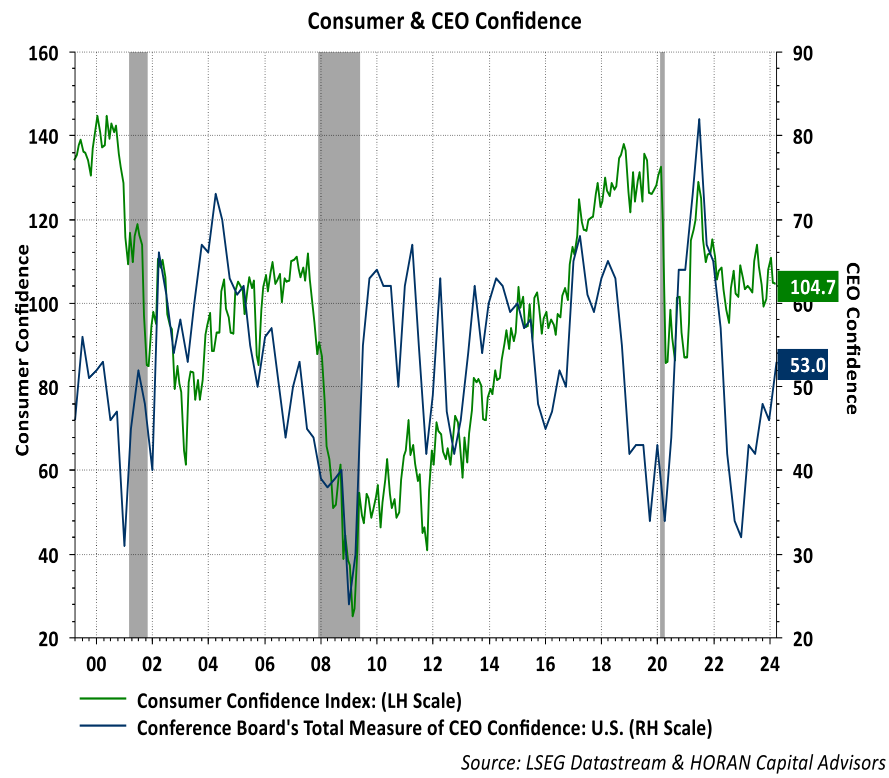
The end of 2023 saw a high expectation for several rate cuts in 2024, as we mentioned earlier. The market implication was US Treasury's soared in a Fed relief rally, driving the US 10 Year Treasury yield below 3.8%. This 1% swing drove US bond returns to positive territory, with the US Aggregate Bond Index returning 5.5% in the last quarter of the year. As expectations around Fed Rate cuts slip so do bond returns. So far this year, the bond market has begun to realize a “higher for longer” Fed Rate scenario. The US Aggregate Bond Index lost -2.3% this quarter as the US 10 Year Treasury yield climbed back above 4%.



Good Vibes

Sentiment remains positive across both the equity market and the economy. Consumer & CEO confidence have risen substantially above recessionary concern levels. Indeed, recession expectations continue to trend downward in the most recent Consumer Confidence Index report.

When the sentiment data has been bullish from both an equity and economic perspective, it is important to remember that these metrics can often provide a contrarian view. It would not be surprising to witness some sort of correction in the near future. We should keep in mind that corrections, or market pullbacks, occur when investors feel that it is unlikely for them to occur.



Strength In Company Earnings

The end of the fourth quarter earnings reporting season is near. According to LSEG/Refinitiv, fourth quarter year over year S&P 500 earnings growth is expected to equal 10.1%. Excluding the energy sector, the YOY growth rate is approximately 13.7%. When the year began, earnings growth expectations for companies in the S&P 500 Index equaled only 4.4%. Clearly, companies are doing better than expected and one reason for the strength in the equity market. Year over year earnings comparisons are tougher in the remaining quarters of the year, yet near double digit earnings growth is expected for all of 2024.

Good economic growth, along with stable corporate earnings growth, is a backdrop for favorable stock price performance. However, equity markets do not move higher in a straight line and a pullback in the overall market would not be unexpected.

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://horanwealth.com/insights.