



Louisville Capital Advisors Current Thinking – First Quarter 2021

Positives:

- 1) The rally became more broad based as we closed 2020 with the S&P 500, Dow Jones Industrial Average, Nasdaq Composite, and the Russell 2000 indexes all at record highs.
- 2) There is now a path to fully opening the economy as the vaccine rollout has begun.
- 3) A decline in corporate earnings in 2Q20 and 3Q20 make for easier comparisons as we receive company earnings reports in the middle portion of this year.
- 4) Interest rates remain low, fueling demand for housing and housing related products.
- 5) Inventories across most tangible items are at record lows and should create a nice manufacturing tailwind throughout 2021.

Negative

- 1) The US stock market is trading at a historically high PE multiple level, currently in the mid-twenties.
- 2) The virus spread is still very high and vaccine rollout has been slower than anticipated which could lead to a bumpy recovery in the first quarter.
- 3) The rally from the lows in 2020 has created much market optimism which can be a contrarian indicator. High expectations can make it tough for actual outcomes to outpace expectations in the near term.
- 4) Ongoing, heated political division has resulted in a lack of willingness to solve our nation's critical issues.

Considerations:

- 1) After the strong equity market rally, review your asset allocation to ensure you're not taking more market risk than your financial plan calls for, and rebalance if necessary.
- 2) Commodity prices have had a big bounce from their lows, and if that trend continues, investors should be on the lookout for signs of future inflation.
- 3) We can't stress this enough, do not be tempted to reach for yield by lowering credit quality with your fixed income investments. Be patient.
- 4) With equity allocations, consider trimming exposure to areas of the economy that benefitted from the pandemic, while also accumulating areas with the greatest leverage to the economic recovery.

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Investing in commodities is generally considered speculative because of the significant potential for investment loss. Their markets are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising.

Keep in mind that individuals cannot invest directly in any index. The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. The Dow Jones Industrial Average (DJIA), commonly known as "The Dow" is an index representing 30 stock of companies maintained and reviewed by the editors of the Wall Street Journal. The NASDAQ composite is an unmanaged index of securities traded on the NASDAQ system. Leading Economic Indicators are selected economic statistics that have proven valuable as a group in estimating the direction and magnitude of economic change. The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represent approximately 8% of the total market capitalization of the Russell 3000 Index.

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