



Disconnect Between the Markets & the Economy

Trying to reconcile recent market advances with not-so-good economic data

The current state of the U.S. stock markets presents a perplexing scenario: while optimism thrives on Wall Street, Main Street USA grapples with significant ongoing challenges. Despite the backdrop of persistent inflation, skyrocketing government debt, record consumer credit card debt, higher interest rates, negative housing data, waning consumer confidence, troublesome social unrest and escalating geopolitical tensions with China, Russia, and North Korea, major U.S. markets persist in reaching all-time highs, juxtaposed against the backdrop of unfavorable economic data.

The Markets Have Covered a Lot of Ground

Reflecting on the trajectory of the markets since the spring of 2020, a remarkable journey unfolds. During the throes of the COVID-19 pandemic, the markets surged significantly within a short four years. For instance, in March 2020:

- The DJIA stood at around 20,000 points, soaring to over 29,000 by 2024.
- The S&P 500 experienced a similar ascent, climbing from approximately 2,200 to over 5,000.
- NASDAQ witnessed exponential growth, escalating from around 6,800 to over 16,000.

However, this narrative extends beyond mere numerical gains. The recent rallies in 2024 prompt a critical inquiry: have the markets advanced too rapidly and perhaps too far?

The Markets Look Forward, Not Backward

It can be challenging to reconcile why stock markets could conceivably perform well amidst a constant drip of negative economic news. Intuitively, it just doesn't make sense. But, the apparent disconnect between markets and the economy is actually normal.

This is because the economic data we receive every week is backwards looking. It tells us what happened. The Employment Situation Report, for example, reports the previous week's unemployment numbers. Most of the other monthly economic data, by comparison, captures what happened in the previous month – with some data reports going back two or three months.

The stock markets, on the other hand, are forward-looking. In other words, the recent rallies in 2024 were more about the markets (i.e., investors) feeling more positive about the future versus uncertain about the present. Whereas the economic data received during this rally was actually showing signs of stress.

How forward does the market look? Well the answer to that depends on who you ask. But generally

speaking, the markets look forward at least a couple of quarters, maybe even as much as 18 months.

Does That Mean It's Over?

Well, we might like to think that we will see nothing but sunny skies and smooth sailing going forward, but that's not going to happen. Especially when you consider that the recent market rallies were really over a short-term period.

That being said, the recent market rallies are encouraging. In fact, often times, strong rallies occur in the beginning stages of a new bull market and maybe we can look back five years from now and recognize that this was the case for our recent rally. Or maybe not.

What Should Investors Do?

The U.S. stock markets can and do move faster than the U.S. economy, but longer-term, the two are absolutely connected. And while there are reasons to be optimistic, there are also plenty of reasons to worry too. As such, it's important for investors to manage their expectations appropriately.

Caution is always warranted amidst the backdrop of short-term market exuberance. The sustainability of the recent rallies remains uncertain, and investors must temper expectations accordingly. While strong rallies often herald the onset of new bull markets, their longevity remains unpredictable.

Navigating this dynamic landscape necessitates prudent investment strategies. Investors must acknowledge the intertwined yet distinct trajectories of the stock market and the economy. While reasons for optimism abound, concerns linger, necessitating a balanced approach. Maintaining a diversified portfolio aligned with individual risk tolerance, alongside periodic rebalancing, ensures resilience amidst market fluctuations.

In this endeavor, the guidance of a financial advisor proves invaluable. Their expertise can help investors navigate the complexities of the market, ensuring that expectations remain grounded and portfolios remain resilient in the face of uncertainty.