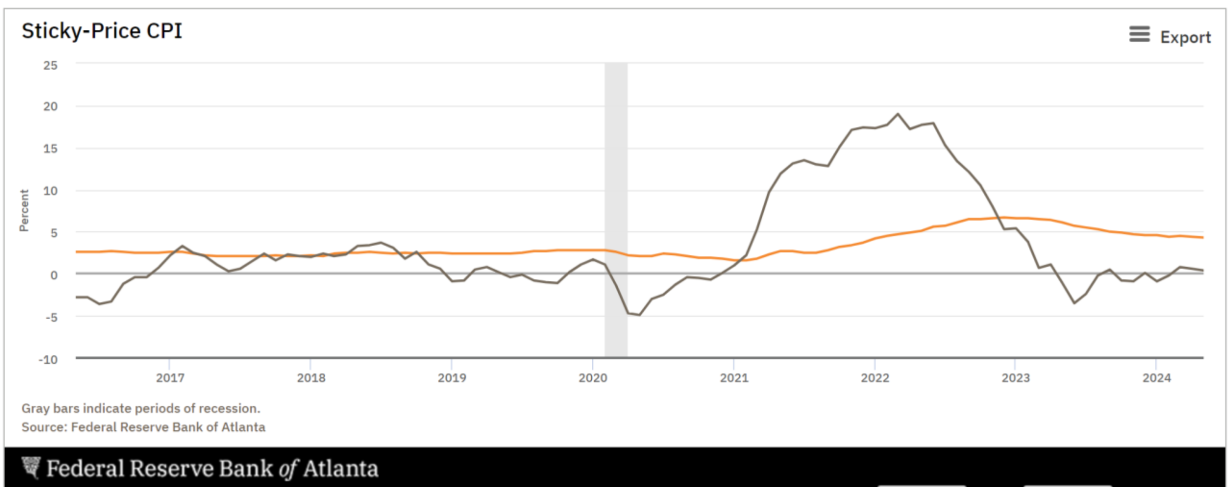
Decatur View –Outlook for June 30, 2024

We will continue to identify the drivers that will impact the capital markets. This quarter we will evaluate the impact of three factors: Fed policy, US presidential election, and forecasted corporate profit margins.

The Federal Reserve and Inflation

Federal Reserve (Fed) will remain resolute in controlling inflation. Chart 1 shows the two aspects of inflation- the sticky and flexible consumer price index. The orange line represents the sticky price CPI, which as the name implies is hard to get rid of and sticks around, such as rents and medical care. The grey line represents the flexible CPI. The flexible CPI includes those costs that may rocket up as inflation builds but are more easily controlled by the Fed, such as hotel rooms costs, entertainment tickets and eating out.

Chart 1: Sticky and Flexible Price CPI 12 month Rolling



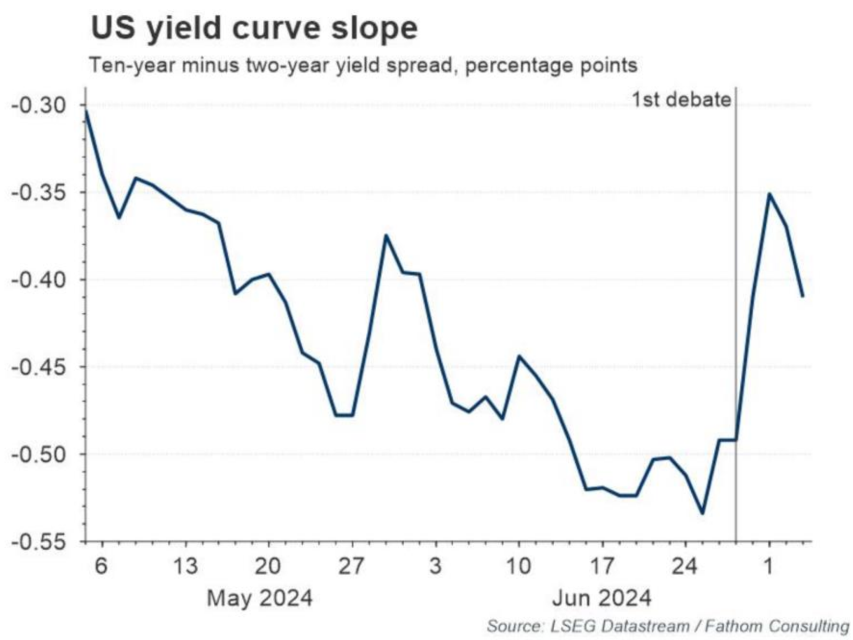
The recent inflation data indicates that the Sticky CPI (4.3%) remains difficult to control. The Fed is targeting the sticky CPI to be in a range of 2.5% and this decline may be very difficult. For historical reference, the Sticky CPI remained around 2.5% until August 2021 and it climbed to as high as 6.7% by December 2022. We are forecasting that easing of rates may occur in 2025.

For equity portfolios, we are seeing an upward trading range and we remain positive for stocks. For our fixed income clients, we continue to employ maturity ladders that will benefit from the Fed's interest rate policy.

US Elections – Geopolitical Event

Given the uncertainty surrounding the election, to include if President Biden will stay in the race, the capital markets have remained resilient. The S&P 500 dipped slightly following the debate but has since continued its positive trend. The spread between the ten year and two year increased following the debate by approximately 15 basis points. This is an indication that interest rates could remain elevated for an extended period due to the uncertainty surrounding the possibility of former President Trump serving a second term.

Chart 2: Market Reaction to the Debate

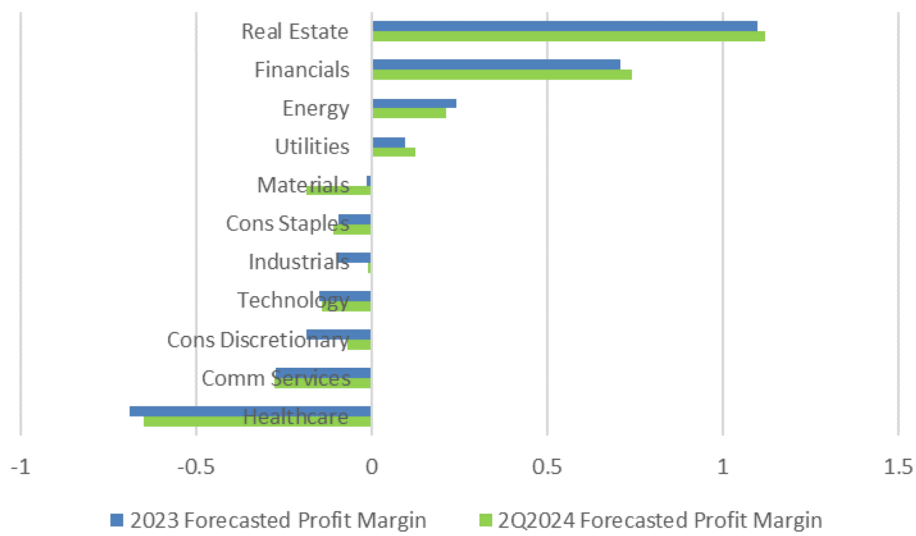


The increasing of interest rate spread does not come as a surprise since we anticipated uncertainty leading up to the election. Also, interest rates remaining higher for a longer period could benefit our financial firms' performance.

Expectations: Forecasted Profit Margins

Chart 3 shows the average US forecasted 2024 profit margin normalized, which provides a measure of market sentiment on the direction of profits. The forecasted profit margin measures forecast of earnings scaled by the forecast of revenues. We normalized these values to measure the distance from the market forecast.

Chart 3: US Forecasted 2024 Profit Margin by Sector



Source: Decatur Capital Management, Inc., Zacks Institutional Services

The outlook for the overall market's projected profit margin has increased since the end of 2023. The only sectors with lower forecasts are consumer staples, materials, and energy. The common characteristics among these three sectors are that they provide essential products and investors may have projected a rotation into these sectors as 2024 began.

In 2024, we have seen mega cap growth stocks continue to lead the market. We are forecasting that the market sentiment will continue to be positive. Based on the earnings forecast and price to earnings ratio, we are forecasting that the S&P 500 could go another 5%-10% higher to a range of 5800 – 6100 by year end.

To be Determined

I will reserve the fourth driver to be determined – that unknown unknown event that we could not have foreseen.

Disciplined Approach

We realize that there could be risks that we simply cannot plan for. We address these risks by staying true to our investment discipline. We continue to focus on companies that will survive catastrophic events based on the firms' leadership and competitive advantage. So, sticking to our mantra of profitability, expectations of stable or growing earnings, and valuation is how we manage these unknown risks.

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