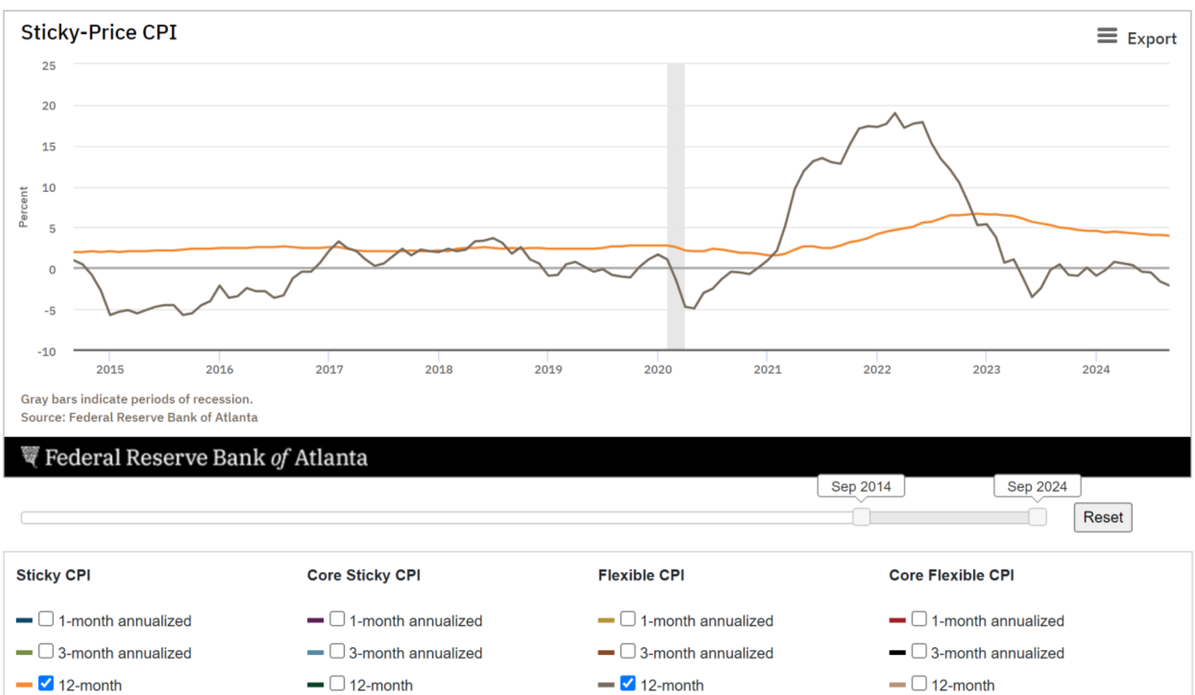
Decatur View –Outlook for September 30, 2024

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, the US presidential election, and forecasted corporate profit margins.

The Federal Reserve and Inflation

In September, the Federal Reserve (Fed) started the easing cycle with a 50 basis point reduction. 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 (4.0%) 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 For historical reference, the Sticky CPI remained around 2.5% until August 2021 and it climbed to as high as 6.7% by December 2022. The easier to control Flexible CPI is a negative -2.1% and with this measuring coming down, the Fed believed it has enough data to start the easing cycle.

The easing of interest rates should be positive for equity, given no major shocks. Therefore, 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 – History does not repeat itself, but it often rhymes

During the quarter, there was a significant change in the outlook on the U.S. presidential election with Vice President Harris entering the race.

This is the seventh time in U.S. history that a former president is running for a nonconsecutive term. Of the earlier instances, only one, Grover Cleveland, won re-election for a nonconsecutive term.

Table 1: Former Presidents and Nonconsecutive Terms

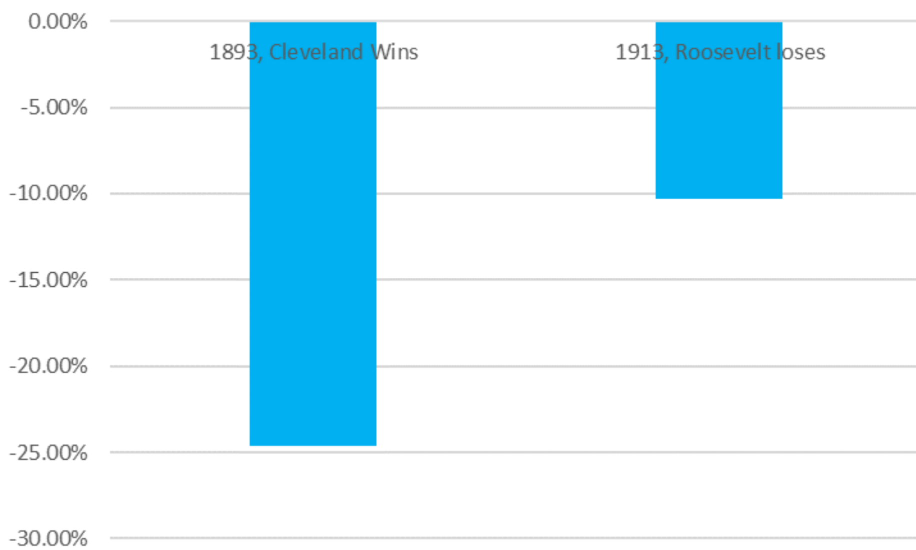
President	Previous term	Reason the president first left office	Year of attempted comeback	Result	Notes
Martin Van Buren[3]	1837–1841	Defeated in the general election	1844	Lost	Failed in his attempt to win the nomination of the Democratic Party
			1848	Lost	First nominee of the newly formed Free Soil Party
Millard Fillmore[4]	1850–1853	Denied nomination by his party	1856	Lost	Nominee for the American Party (Know Nothing)
Ulysses S. Grant[5]	1869–1877	Retired	1880	Lost	Failed in his attempt to win the nomination of the Republican Party
Grover Cleveland[6]	1885–1889	Defeated in the general election	1892	**Won**	Only president to succeed at his comeback attempt, served four more years.
Theodore Roosevelt[7]	1901–1909	Retired	1912	Lost	Nominee of the Progressive Party (Bull Moose), after he was denied the nomination of the Republican Party.
Herbert Hoover[8]	1929–1933	Defeated in the general election	1940	Lost	Failed in his attempt to win the nomination of the Republican Party
Donald Trump[9]	2017–2021	Defeated in the general election	2024	To be determined	Officially became the nominee of the Republican Party in July 2024.

Source:
https://en.wikipedia.org/wiki/List_of_former_presidents_of_the_United_States_who_ran_for_office

Cleveland's reelection in 1892 was based on his reputation as a political reformer, anti-immigration policies, and opposition to high tariffs. Will this seventh occurrence result in former President Trump retaking the White House, like Cleveland, or face the result of the unsuccessful former presidents?

The 2024 election has many parallels with the 1912 presidential election when Theodore Roosevelt attempted to retake the White House. Immigration, concentration of corporate power, societal disruption resulting from industrialization, and even an attempted assassination were the hot issues of the day! Similar to Trump, Roosevelt's personality attracted some and repelled others.

Chart 3: DOW Return - One Year Following Presidential Election



In my West Point book club, we have learned that history may not repeat but it definitely rhymes. If you look to the impact on the markets in 1893 and 1913, one year following the election, both were down years for markets. In 1893 the market was responding to a run on gold in the U.S. Treasury and slowing economic growth. In 1913, the market declined due to several bank panics and the escalating cost of meat.

Neither of these declines were due to administration policies but due to broader economic developments. I am forecasting that the election will have minimal impact on capital markets in 2025.

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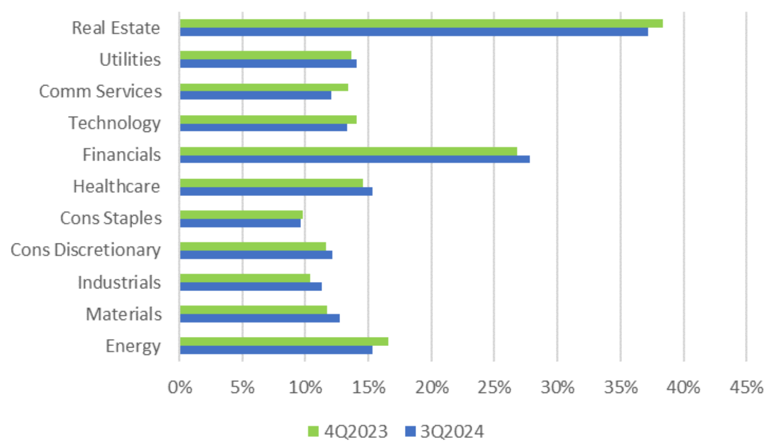
Expectations: Forecasted Profit Margins

Chart 4 shows the average US forecasted 2024 profit margin, 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.

Chart 4: 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 decreased slightly since the end of 2023. The sectors with lower forecasts are energy, consumer staples, communication services, real estate, and technology.

In 2024, we have seen mega cap growth stocks lead the market. The market sentiment will continue to be positive but at a slower pace. Based on the earnings forecast and price to earnings ratio, we are forecasting that the S&P 500 could go another 5% higher to a range of 6000 – 6100 by year end.

To be Determined

I will reserve the fourth driver to be determined – that 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.