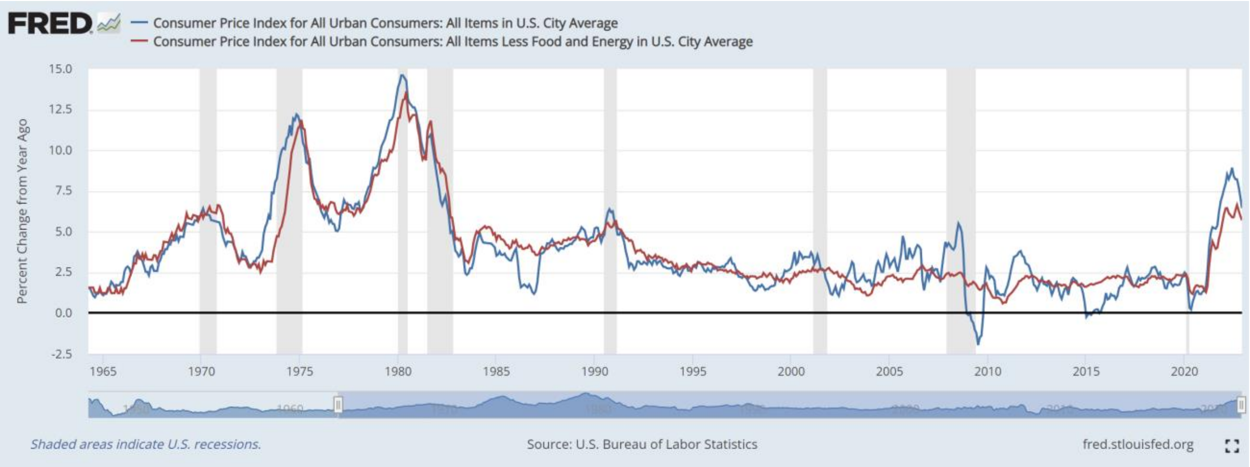
February 17, 2023 Decatur Market Notes:

We continue to focus on the three drivers for the markets in 2023. Those drivers are the Federal Reserve controlling inflation, global threats, and earnings expectations.

The Federal Reserve's recent 25 basis point rate hike brings the Federal Funds Rate to 4.50% - 4.75%. One school of thought is that the Fed will continue to hike rates until the Federal Funds Rate is above the inflation rate. Chart 1 shows the Consumer Price Index (CPI) or inflation rate, is 6.4% trailing twelve month period from a high of 9.0% in July 2022. This week's economic reports, CPI, Retail Sales, Producer Price Index, etc. indicated that inflation was hotter and more sticky than expected. We are forecasting that the Fed will reach their objective of controlling inflation, but will require additional rate hikes.

Chart 1: Consumer Price Index



Source: Federal Reserve Bank of Atlanta

For our clients with bond exposure, we are maintaining a short duration strategy by laddering maturities to benefit from increasing interest rates. During this period of hiking rates for longer, we anticipate that the S&P 500 will be in a trading range of 3700 – 4100.

If the Fed can get the inflation rate down to the 4% level, we could see a pause in the rate hikes. Therefore, our target for the end of 2023 is a S&P 500 at approximately 4200. Currently, the 10 Year US Treasury is approximately 3.8%. We expect the bond yields will stay in a tight range and finish the year at approximately 4.0%.

The global threats continue to be an area of concern! In our 2023 Outlook, we identified the Russia-Ukraine escalation and China saber rattling. Well, China is becoming more of an unknown-unknown, to borrow from the former Secretary of Defense Rumsfeld's definition of risks. China, Hong Kong, and Taiwan comprise approximately 15% of the All World Country index; therefore, as an investor, China's actions have an impact on investment decisions. China's surveillance balloon last week and the recent

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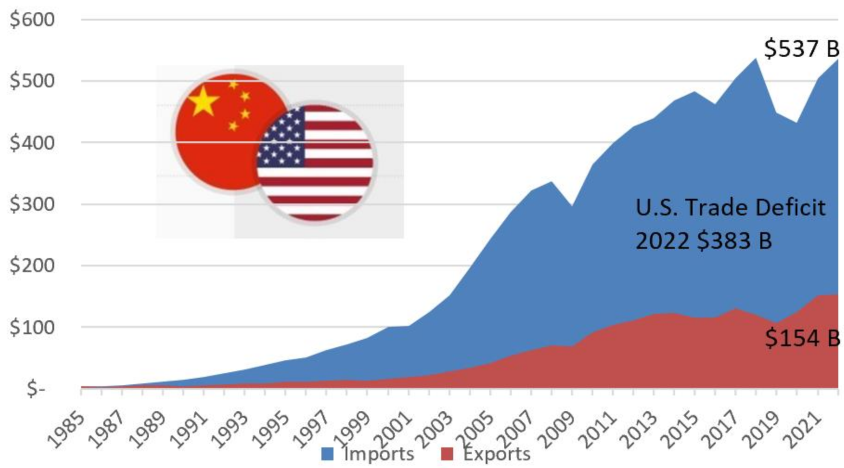
shootdown of three additional unidentified objects increases our global concerns. As of Feb. 17th, we do not know the origin of the three recent unidentified objects.

Chart 2: A Long Term View on Trade with China

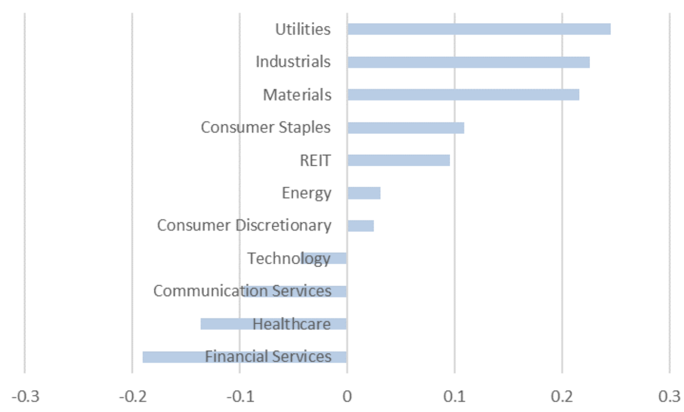


Source: www.census.gov Decatur Capital Management, Inc.

In the face of the worsening US-China relationship, we continue to underweight our exposure to the region. Chart 2 shows that the US – China trade relationship is significant; therefore, neither nation will benefit from an escalation in tension. Therefore, our thesis on China is cautious.

The earnings expectations for US companies has declined; however, the average earnings report is still beating estimates. The chart 3 shows the current earnings surprise z-score, which measures companies' earnings surprise relative to the market average annual earnings and standard deviation forecasts.

Chart 3: Earnings Surprises Z-score



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

Decatur Capital Management Inc.

Companies related to infrastructure investments, utilities, industrials, and materials are surprising on the upside at a higher level than the average stock. Interestingly, we see the typical growth sectors, technology, healthcare, etc. are performing lower than the average stock. Therefore, our diversified approach of allocating to infrastructure, growth, and disruptive stocks should continue to perform in this market environment.

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