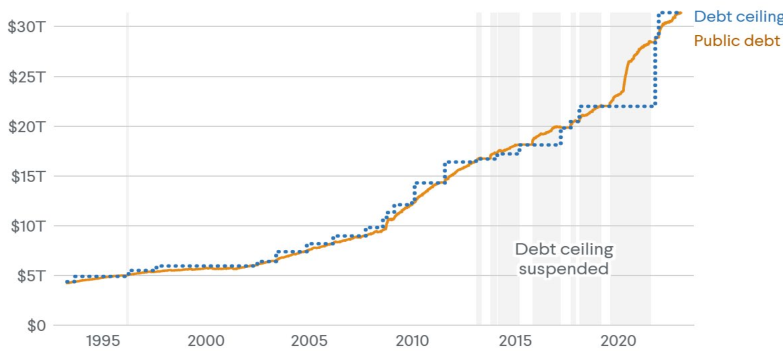
DECATUR CAPITAL
MANAGEMENT INC.

Decatur Market Notes – May 31, 2023
I have discussed the impact of the 'known-unknowns' events on capital markets. Investors that have been watching the expiration of the debt ceiling suspension (known) have been predicting a partisan debate (unknown).

The Debt Ceiling
From a historical perspective, the debt ceiling was created by Congress in 1917 by the Second Liberty Bond Act. The debt ceiling sets the maximum amount of money that the federal government can borrow to meet its existing legal obligations. In Chart 1, the public debt is approximately $31 Trillion (orange line).

Chart 1: Public Debt and the Debt Ceiling



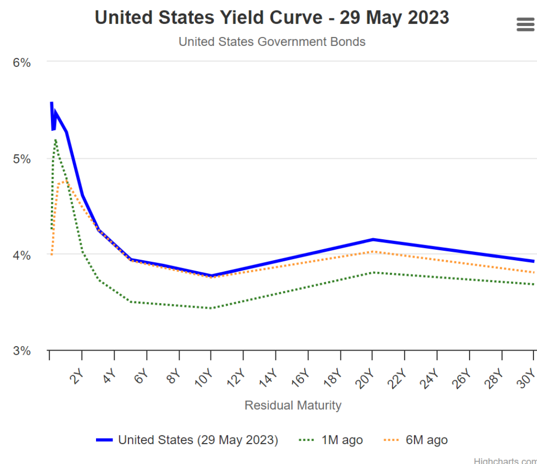
Sources: U.S. Treasury Department; Congressional Research Service.

COUNCIL on FOREIGN RELATIONS

In 2013, Congress passed the Continuing Appropriations Act which resulted in suspending the debt ceiling (gray bars). The Continuing Appropriations Act expired in July 2021 and the debt ceiling was increased to $31.4 trillion in December 2022. Janet Yellen, U.S. Treasury Secretary, notified Congress that action must be taken to extend the debt ceiling beyond the $31.4 Trillion. Yellen has stated that by early June, the federal government will run out of money to pay its obligations.

Fortunately, Congress and the White House have agreed, in principle, to suspend the debt ceiling to January 31, 2025 and we are forecasting that this will resolve the issue until then.

Chart 2: U.S. Treasury Yield Curve



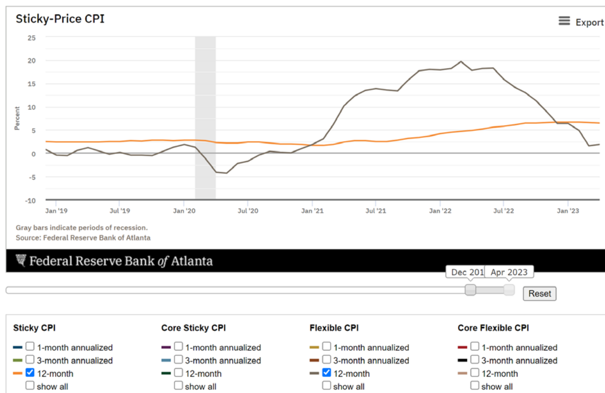
Source: www.worldgovernmentbonds.com

Chart 2 shows the current impact the debt ceiling crisis and increasing Fed hikes have on the fixed income market. On May 29, 2023 the one-month treasury bill yield was at 5.58%, on April 29th, the one-month was 4.25% - a difference of 133 basis points. Therefore, the federal government is paying additional yield to investors to buy the U.S. treasury securities during the 'crisis' period. We expect with the pending resolution that the short-term yields will decline back to the April levels.

The June Fed Meeting

As the debt ceiling issue is resolved, we turn again to the actions of the Federal Reserve. Chart 3 clearly shows that the Flexible CPI (going out to eat, concert tickets, etc), has declined to the pre-pandemic level of approximately 1.9%. The Sticky CPI (housing, labor), is more difficult to control and is approximately 6.5%.

Chart 3: Sticky and Flexible CPI



Based on the Sticky CPI still hovering around that 6.5% level, we are forecasting a 25 basis point hike at the June meeting.

Asset Allocation Impact

We have noted the positive performance of mega cap technology and growth-oriented firms. This year the Decatur U.S. Large Cap Growth Strategy has a growth at a reasonable price approach that has lagged the Russell 1000 Growth.

Chart 4: Sector Allocation and Stock Selection Decisions, Year to Date

Source: Decatur Capital Management, Refinitiv

One area of concern is in the healthcare sector. In 2022, our allocation to healthcare outperformed the benchmark. Chart 4 shows that our healthcare holdings (tan bubble) decisions have been a drag on performance during 2023 due to both allocation and selection effects. Given this style shift, we are rotating away from value-oriented healthcare and looking to companies with more of a growth driver. The value-oriented healthcare stocks offer high relative dividend yields +3% and high book-to-price ratios which we over-weighted last year. We will focus on those healthcare companies with growth drivers, competitive advantage, and lower dividend yields.

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