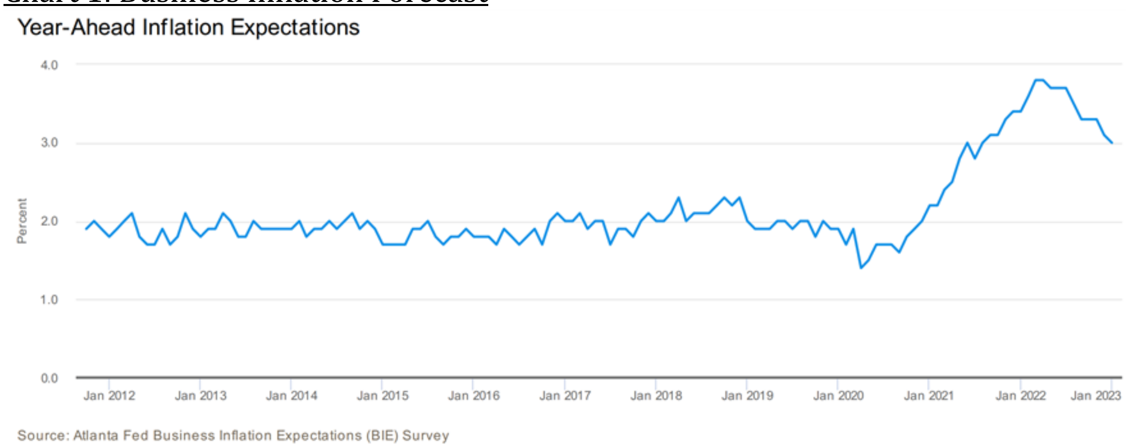
Decatur View - Outlook 2023

Our outlook for 2023 is cautiously optimistic.

We believe that there are three drivers that will impact markets in 2023. The drivers are 1.) Federal Reserve will control inflation 2.) Global threats 3.) Earnings Expectations

Federal Reserve (Fed) will remain resolute in controlling inflation, even if we experience the 'pain' of a mild recession. The current inflation is 7.0% and the Business Inflation Forecast for the year ahead expected inflation is 3.3%. This reflects that inflation will soften into 2023. We believe that the Fed will moderate their interest rate hikes and eventually pause sometime during the year. In addition, due to the Republicans taking the House majority, we will have gridlock which historically has been positive for stocks. We forecast that markets trade in a range until the Fed pause and then positive upside for the markets.

Chart 1: Business Inflation Forecast



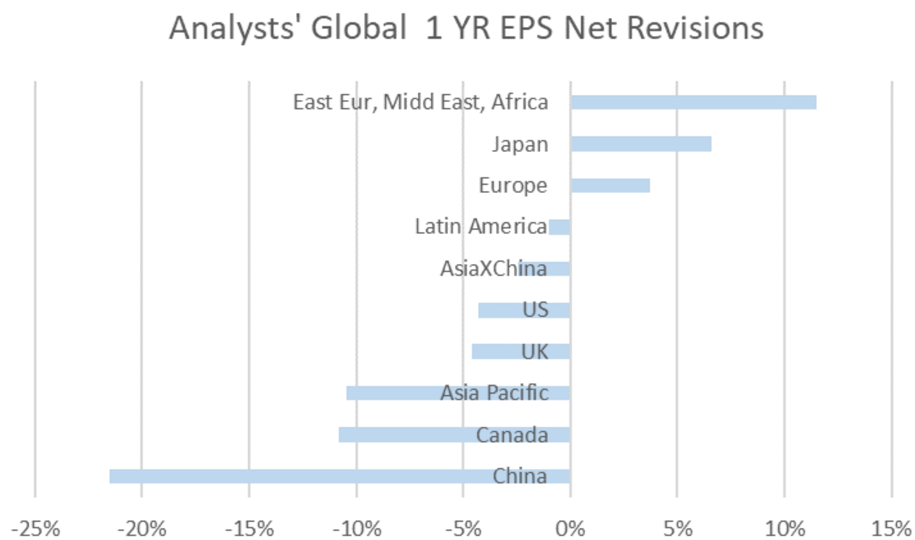
We are concerned with global events, Russia-Ukraine War and China. We know that the Russia-Ukraine War will continue but we do not know if the conflict will escalate or arrive at a peaceful resolution. If we see an escalation, this will be negative overall for markets, particularly European markets, while a peaceful resolution would, most likely, result in a positive global market surge. China remains a concern; however, it has addressed several structural issues which discouraged investment. Significant regulation of China based technology firms has eased since the beginning of 2022. The fear of delisting approximately 200 China based firms that trade on U.S. exchanges has been addressed with the recent agreement that allows US auditors to review those firms. Lastly, China is easing its Zero COVID lockdown policy. This easing of restrictions results in the reopening of the economy. We remain cautious on market upside while maintaining an overweight to the U.S., underweight to Europe and increasing our exposure to emerging markets, which includes China.

The first two, the Federal Reserve and Global threats will impact the strategy portfolio allocation. Earnings Expectations has a greater impact on stock selection.

Two of our favorite expectations measure are the analyst net revisions and earnings forecast concentration.

Net earnings revisions provide a measure of market sentiment on the direction of earnings. The global net earnings revisions indicate that China has 21% of analysts' decreasing their estimates.

Chart 2: Global 1 Year EPS Net Earnings Revisions

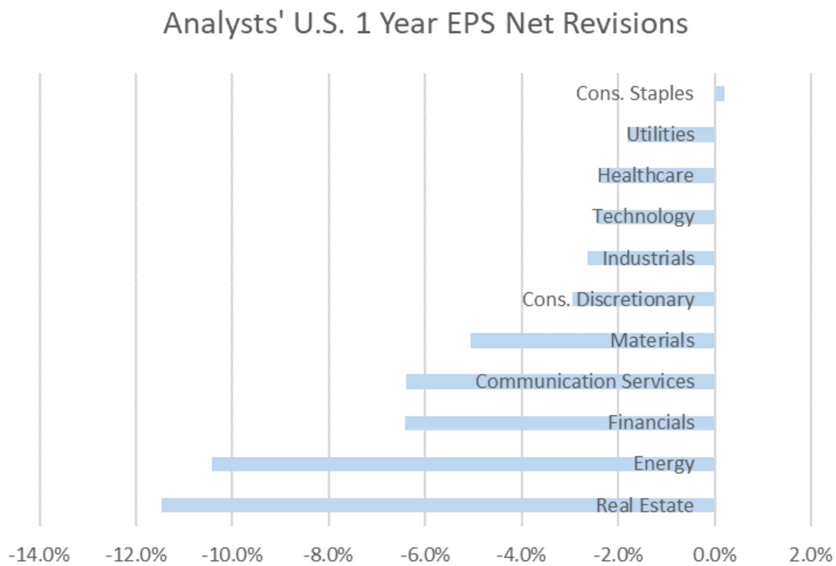


Source: Factset, Zacks Investment Research, Decatur Capital Management

While most of the remaining emerging markets have better outlooks, we continue to be cautious in the region. We continue to overweight US, Canada, Japan, and Latin America.

The overall US net revisions is -4%, but there is a wide dispersion among economic sectors. Consumer staples sector is slightly positive, followed by utilities and healthcare.

Chart 3: United States Net Earnings Revisions



Source: Zacks Investment Research, Decatur Capital Management

We continue to overweight healthcare in 2023 for two reasons. One, healthcare is recession resistant because consumers will still need medical care and two, our selected healthcare companies have sustainable competitive advantages.

Financials, energy and real estate have the biggest negative earnings revisions among analysts. Bank's earnings forecasts are declining because banks are putting more of their cash in bad debt reserves in anticipation of consumers having difficulty paying back loans if we enter a recession. We are being cautious within these sectors.

Earnings forecast concentration measures the market's agreement on a company's earnings forecast. The greater the agreement among analysts' forecasts, the more confidence we have on the firm's outlook. For example, within healthcare, we have the most confidence of earnings forecasts in the medical equipment industry.

We focus on individual companies' net earnings revisions and earnings forecast concentration in our stock selection process.

We realize that there could be risks that we simply cannot plan for. Some events that fall into this category include a global war, or the popping of a financial bubble resulting in a devastation of the global economy. We address these risks by staying true to our investment discipline. We continue to focus on companies that would survive catastrophe 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.

Note: Returns are measured in U.S. dollars net of fees. Decatur Capital Management, Inc. (DCM) is a registered investment advisor specializing in quantitative growth oriented investment management. The benchmark is the S&P 500 which is designed to measure the large cap firms within the U.S. The benchmark is market cap weighted. DCM claims compliance with the Global Investment Performance Standards (GIPS). To receive a list of composite descriptions of DCM and/or presentation that complies with the GIPS standards, contact Ralph J. Bryant, CPA at (404) 270-9838 or ralphb@decaturcapital.com or write to DCM, 150 E Ponce De Leon Avenue, Suite 150, Decatur, GA 30030.