

## Weekly Update – February 20, 2023

| Market Returns Ending 2/17/2023 |        |       |        |
|---------------------------------|--------|-------|--------|
| Category                        | 1 Week | YTD   | 1 Year |
| <b>US</b>                       |        |       |        |
| Large Cap                       | -0.2%  | 6.5%  | -5.3%  |
| Mid Cap Growth                  | 1.3%   | 10.7% | -4.7%  |
| Mid Cap Value                   | 0.2%   | 7.6%  | -0.6%  |
| Small Cap                       | 1.5%   | 10.6% | -2.7%  |
| <b>International</b>            |        |       |        |
| Developed                       | 0.6%   | 8.0%  | -3.9%  |
| Emerging                        | -0.2%  | 5.8%  | -16.0% |
| <b>Bonds</b>                    |        |       |        |
| Aggregate                       | -0.7%  | 0.9%  | -8.8%  |
| High Yield                      | -0.6%  | 2.4%  | -5.0%  |

| US Equity Style Returns |        |      |        |
|-------------------------|--------|------|--------|
|                         | Weekly |      |        |
|                         | Value  | Core | Growth |
| Large                   | -0.3   | 0.0  | 0.2    |
| Mid                     | 0.2    | 0.6  | 1.3    |
| Small                   | 1.3    | 1.5  | 1.6    |
|                         | YTD    |      |        |
|                         | Value  | Core | Growth |
| Large                   | 4.3    | 7.0  | 9.8    |
| Mid                     | 7.6    | 8.7  | 10.7   |
| Small                   | 10.1   | 10.6 | 11.2   |

*Source: Bloomberg*

### Key Events: Goldilocks had a bad week

The market digested higher than expected inflation consumer spending data. Accordingly, Federal Reserve bank Presidents spoke publicly this week, delivering a cohesive message that despite slowing inflation, there are more interest rate hikes to come.<sup>i</sup>

Most companies have reported 4Q earnings reports and, as expected, profits continue to decline.<sup>ii</sup>

### Market Review: The pause that refreshes?

Large cap stocks reacted to the hawkish Fed as the S&P 500 declined slightly for the week. Emerging markets were down slightly as well, but small cap and developed international stocks held onto gains. Bonds declined as interest rates increased across the board, reflecting hawkish Fed rhetoric.

### Outlook: Unsettled

Volatility may continue until we gain clarity regarding the path of the economy and markets; discipline is key.

The evidence for a slowdown includes slowing earnings and contracting manufacturing surveys. Inflation readings above the Fed's comfort level bode for continued rate increases. Investor bearishness, a contrarian indicator, is lower than any point during 2022.<sup>iii</sup>

The market, however, is currently looking past the expected economic weakness. The chart below highlights

the IMF World Economic Outlook; notably the IMF has increased their 2023 growth outlook from October's 2.7% estimate to 2.9% at the end of January. While the risk of a market decline has increased, technicals and market breadth are positive. Additionally, strong January returns often carry through to the rest of the year, and the presidential cycle bodes for strong returns as well.



# GROWTH PROJECTIONS



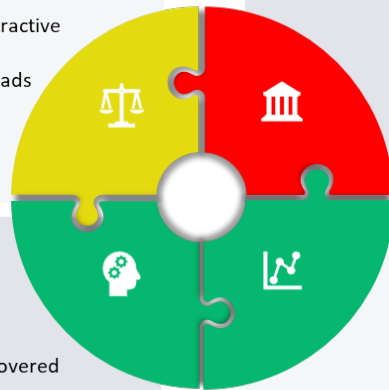
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## Navigator Outlook: February 2023

### VALUATION

- Stock and bond valuations have become less attractive after January's strong returns.
- High-quality are attractive, while high yield spreads have decreased despite recession fears
- US large cap stocks are more expensive than International or Small Caps.



### ECONOMY

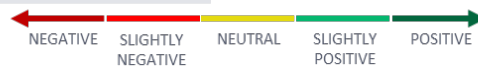
- The Federal Reserve indicated rate hikes may slow as inflation is beginning to slow.
- Manufacturing indicators have dipped to levels indicating an economic contraction.
- Margin pressures are causing analysts to cut earnings estimates for 2023.

### SENTIMENT

- Bearish investor sentiment was above average for almost all 2022 and remains high.
- The University of Michigan and Conference Board surveys of Consumer Sentiment have recovered from their recent lows.
- Negative investor sentiment paired with low but recovering consumer sentiment measures render overall view of Sentiment as positive.

### TECHNICAL

- Many short-term technical indicators appear extended after January's strong returns
- Medium and long-term measures such as market breadth have moved into positive, and many markets have broken the downtrends of 2022.
- Near-term volatility is likely to continue as the market discounts economic uncertainty.



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<sup>i</sup> Source: Federal Reserve

<sup>ii</sup> Source: Factset

<sup>iii</sup> Source: AAI Investor Sentiment Survey