OneAscent

23 Inverness Center Parkway
Birmingham, AL 35242

205.847.1343

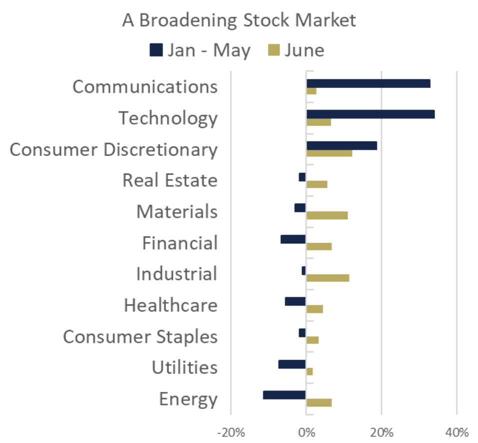
info@oneascent.com

Monthly Update – June 2023

The Annie recession – always a day away

Tomorrow! Tomorrow! I love ya, Tomorrow!
You're always A day Away! - Annie

Everyone ***knows*** that we're going to have a recession. The Fed acted too late to curb inflationary pressures, therefore we know they'll tighten policy too far and drive the economy into recession. And yet, the economic data has improved – 1Q GDP was revised higher and inflation continues to decline.



Source: Bloomberg

One of our concerns this year has been the narrowness of the bull market. Through May, the equal-weighted S&P 500 lost money, despite the broad market gains.[i]

This changed in June; the equal-weighted S&P 500 out-performed the capitalization-weighted index and more stocks traded above their moving averages.

Unlike the beginning of the year, when two sectors drove most of the gains, June exhibited a healthier balance.

June Market Review

Increasingly broad market leadership was visible in sector returns as well as in broad market return data:

- Small and mid-cap stocks led the way, outperforming the S&P 500
- International stocks gained less than US stocks as economic data deteriorated relative to US data.
- US investment-grade bonds lost ground as the Fed considered further rate hikes, while High Yield bonds earned solid returns due to decreased fears of recession

Do June's returns reflect a new bull market, or should the advance be viewed with skepticism?

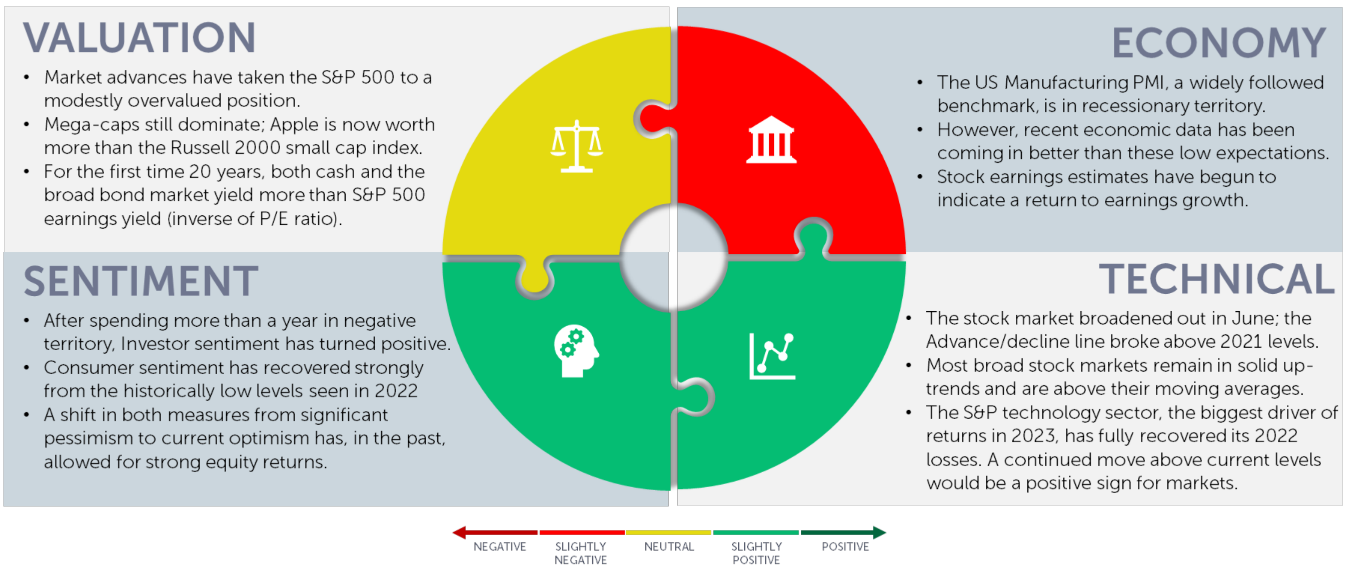
Market Returns Ending 6/30/2023

Category	June	YTD	1 Year
US Stocks			
S&P 500	6.6%	16.9%	18.4%
Russell Mid Cap	8.3%	9.0%	13.3%
Russell 2000 Index	8.1%	8.1%	11.0%
International Stocks			
MSCI EAFE	4.6%	12.2%	20.5%
MSCI Emerging Markets	3.8%	5.0%	2.9%
Bonds			
Bloomberg Aggregate Bond	-0.4%	2.1%	-1.5%
Bloomberg US High Yield Bond	1.7%	5.4%	8.9%

Source: Bloomberg

To answer that question, we follow our Navigator process; it helps us maintain discipline and perspective.

July 2023 Navigator Outlook



Economy: Economic indicators such as the US Manufacturing PMI are in recession territory. However, much of the recent data has come in better than expectations, providing some optimism. Inflation data seems to be moderating and corporate earnings estimates for the next year have begun to increase.

Technicals: Market breadth improved in June on multiple fronts; many markets are in solid uptrends with an increasing percentage of stocks also in solid uptrends, and the advance/decline measure has returned to levels seen prior to the 2022 market drop. The S&P technology sector, a significant driver of returns this year, has met resistance after trading back to its 2021 high. This level of resistance may turn into support if the market can break through this level.

Sentiment: After spending more than a year in negative territory, Investor sentiment has turned positive. Consumer sentiment has also recovered from the historic lows of 2022. A shift in both measures from significant pessimism to current optimism has, in the past, allowed for strong equity returns.

Valuation: Market advances have taken the S&P 500 to a modestly overvalued position. Mega-caps still dominate; Apple is now worth more than the Russell 2000 small cap index. The relationship between stocks and bonds has shifted; “TINA” (there is no alternative to stocks) does not accurately describe the investment landscape. The volatility of stocks necessitates both growth and a higher earnings yield than what we could get in bonds. For the first time in 20 years, though, both cash and the broad bond market yield more than S&P 500 earnings yield (inverse of P/E ratio).

Outlook and Recommendations: At a crossroads

The stock market has continued its strong gains in the face of an expected recession. How should we position portfolios? It makes sense to revisit the positives and negatives in the market today and implications for portfolios:

Positives	Negatives
Technical indicators are improving; the rally may have further to run.	US stocks have moved further into overvalued territory. This may limit further upside.
Investor and consumer sentiment is improving from historically low levels, supportive of further market gains.	We have yet to experience a significant (10%) pullback in stocks this year. Do expect to be tested by pullbacks.
Economic Data is improving, particularly in the United States.	But we still expect a slowdown. Higher interest rates may slow consumer spending.
Attractive returns are available – bonds, international stocks and Small-mid cap stocks remain attractive.	Large cap stock valuations are not inexpensive, mitigating the potential for strong gains.

Our advice to investors:

- Don't abandon bonds. They are trading at their most attractive levels in 20 years relative to the earnings yield of stocks. If a balanced portfolio is appropriate for you, bonds are an important component of that portfolio.
- Remain diversified. Small cap and international stocks are valued attractively relative to the S&P 500.
- Consider alternative investments to lower volatility– a smoother ride may help you stay invested, positively impacting your wealth.
- Remain invested. Fight the urge to change course because of uncertainty and take advantage of pullbacks to invest in the proper allocation for your goals.

We don’t know if we’ll experience strong returns or a recession-induced pullback. In times of uncertainty, it is vital to have a plan and investment strategy that works for you. We urge investors to talk with your trusted advisor and evaluate your plan.

[i] Source: Bloomberg