23 Inverness Center Parkway
Birmingham, AL 35242

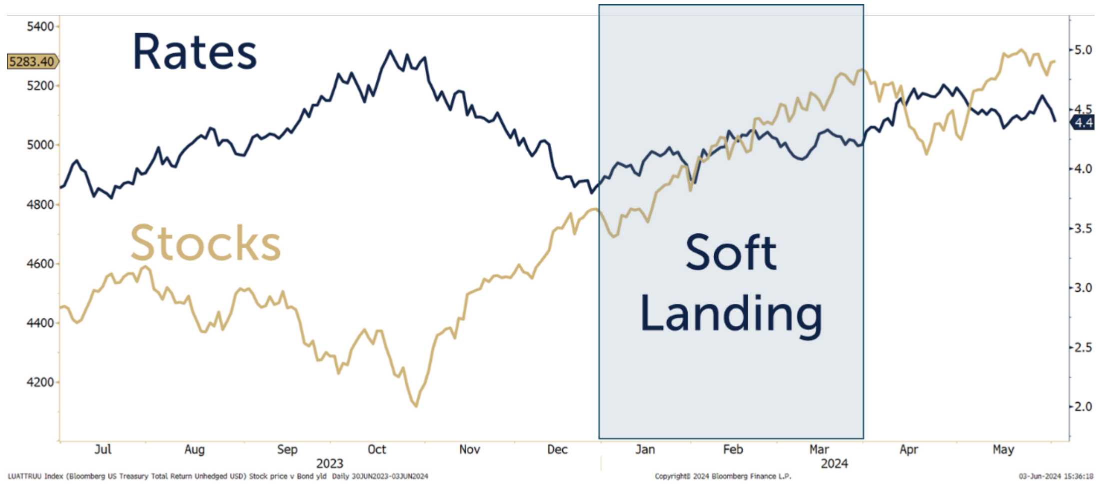
205.847.1343

info@oneascent.com

Monthly Update – June 2024

May review – Interest rates are driving the stock market again

Interest rates drove the stock market during the second half of 2023 – the chart below shows that rising rates (blue) drove stocks (gold) down and vice versa. The first quarter of 2024 marked a significant change in the narrative; stocks bought into the notion that we would achieve a soft landing, rising at the same time bond yields rose[i].



Inflation data came in higher than expected during April, triggering a return to an interest-rate driven stock market; stocks sold off as rates rose. May brought back hopes for a soft landing as Inflation and growth data were not too strong and not too soft, allowing stocks to return to an uptrend. The first quarter earnings season ended on the positive note of Nvidia's blowout earnings which helped drive 25% year over year earnings growth in the technology sector.

Before we talk about what's next, let's review May's returns.

May Market Review

Markets bounced back in May:

- Tech stocks, led by strong earnings, drove large cap stocks higher. Small stocks received relief from recession fears, rising alongside large stocks.
- International stocks rose as well, but less than US stocks.
- Bonds staged a relief rally as economic data cooled during the month.

Market Returns Ending 5/31/2024			
Category	May	2Q	YTD
US Stocks			
S&P 500	5.0%	0.7%	11.3%
Russell Mid Cap	2.9%	-2.7%	5.7%
Russell 2000	5.0%	-2.4%	2.7%
International Stocks			
MSCI All Country World Ex-US	3.0%	1.2%	6.1%
MSCI Emerging Markets	0.6%	1.0%	3.5%
Bonds			
Bloomberg Aggregate Bond	1.7%	-0.9%	-1.6%
Bloomberg US High Yield Bond	1.1%	0.1%	1.6%

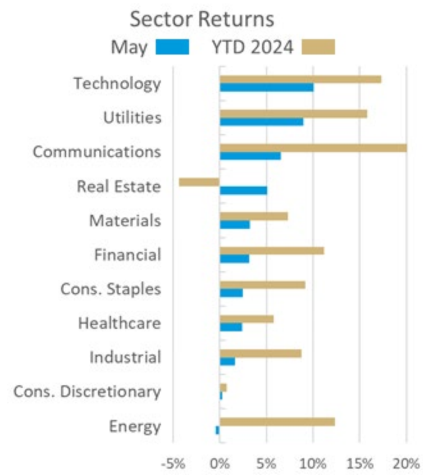
Category	May	2Q	YTD
Russell 3000 Growth	5.96%	1.3%	12.7%
Russell 3000 Value	3.25%	-1.3%	7.2%

Source: Bloomberg

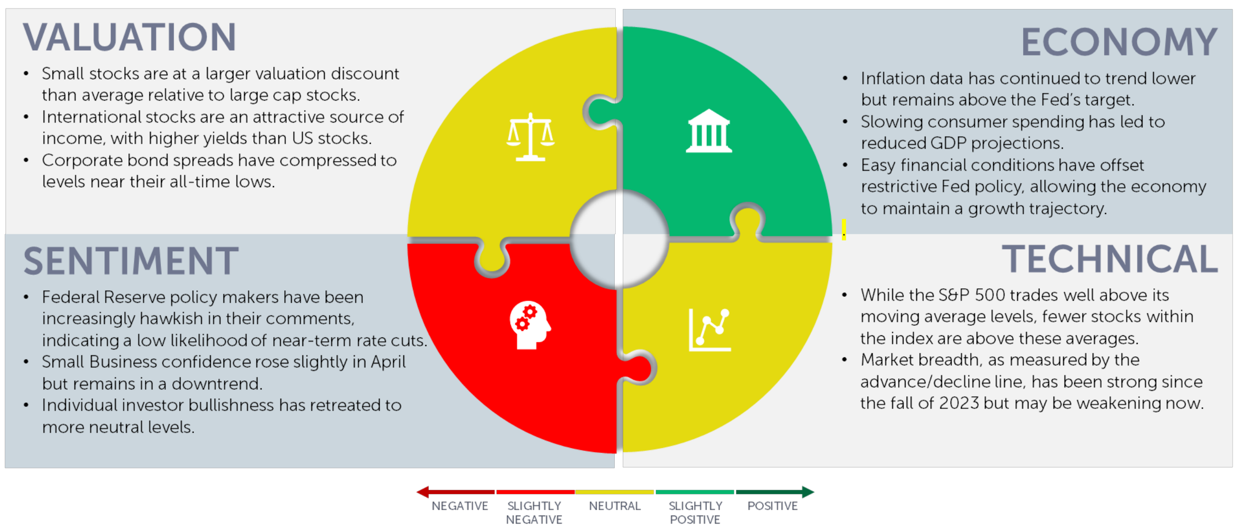
Stock sector movements reflected a mostly risk-on mindset :

- ➢ Technology and communications are winners for the month and the year.
- ➢ Utilities turned in strong returns, in part due to perceptions of AI's increased electricity demands.
- ➢ Poor consumer discretionary returns were caused by slowing retail sales data.

Our Navigator framework informs our outlook.



June 2024 Navigator Outlook



<u>Economy</u>: Inflation data has continued to trend lower but remains above the Fed's target. Data showing a slowdown in real consumer spending has led to reduced GDP projections. Easy financial conditions (such as low high yield spreads) have offset restrictive Fed policy, allowing the economy to maintain a growth trajectory.

<u>Technicals</u>: While the S&P 500 trades well above its moving average levels, fewer stocks within the index are above these averages. Market breadth, as measured by the advance/decline line, has been strong since the fall of 2023 but may be weakening.

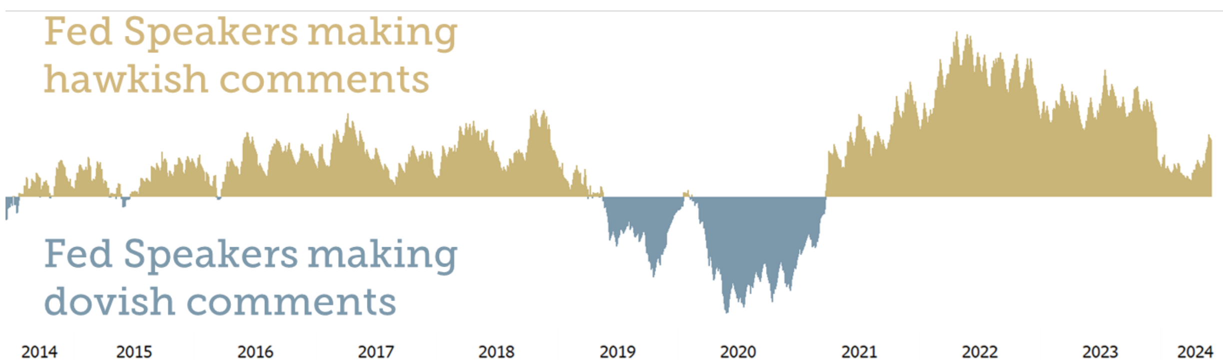
<u>Sentiment</u>: Federal Reserve policy makers have been increasingly hawkish in their comments, indicating a low likelihood of near-term rate cuts. Small Business

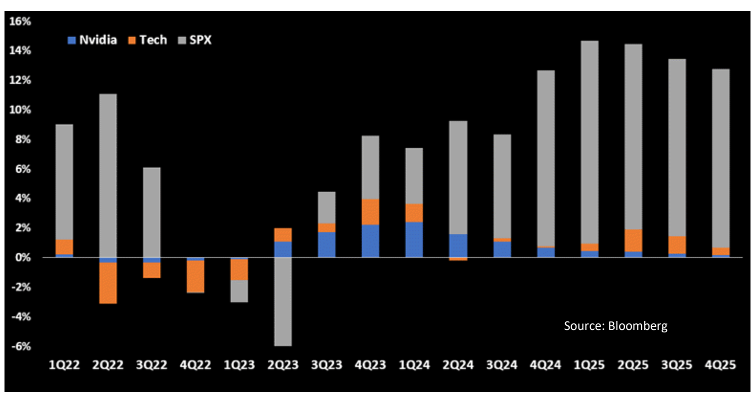
confidence rose slightly in April but remains in a downtrend. Individual investor bullishness has retreated to more neutral levels.

Valuation: Small stocks are at a larger valuation discount than average relative to large cap stocks. International stocks are an attractive source of income, with higher yields than US stocks. Corporate bond spreads have compressed to levels near their all-time lows, suggesting muted returns going forward.

Outlook and Recommendations: Market drivers: rates and earnings

The allure of a soft landing that drove returns in the first quarter has diminished. Markets are again taking direction from interest rates, and it makes sense to ask what the Fed thinks about bond yields. The chart below illustrates Federal Reserve sentiment using a natural language processing model to analyze the content of Fed speeches – specifically how hawkish (prone to raise rates) or dovish (prone to lower rates) their comments are. Federal Reserve speakers were getting less and less hawkish throughout the last couple of years; May, however, showed a spike in hawkish comments. Don't bet on rate cuts until the data causes the Fed to change its tone; unfortunately, that would likely signal a recession.





What, then, will drive markets higher? One key set of data we are watching is earnings. Market performance needs to broaden beyond the technology sector for a rally to be sustainable, and the earnings data to the right shows that it might just happen[ii]. The blue bars indicate Nvidia's contribution to S&P 500 earnings, while the gold bars show technology's contribution, with the remainder of the S&P 500 in gray. This chart suggests that earnings will be less reliant on Nvidia, and technology in general, which would allow market returns to also be less reliant on the technology sector.

Portfolio positioning

We have discussed our view that the two negative outcomes – inflationary pressures or a recession – should both be viewed as more likely than the market views them; stocks are pricing in a soft-landing with little hesitation. We want our portfolios to perform well should either unfavorable scenario occur.

Given that, we are on the lookout for softer data while preparing portfolios from inflation. Portfolios remain balanced, with exposures to assets that prepare us for either scenario.

Over the last year we have added small and midcap value managers to the portfolio. These managers own stocks that would be less exposed to valuation risk in the event of inflation and may protect on the downside if the economy were to enter a recession. High yield bond premiums have declined so we recently trimmed our position, shifting to high quality corporate bonds that should hold up better if the economy sours, but offer some protection against higher rates.

We remain vigilant to risk and opportunities, and encourage investors to remain prepared, but in the game, during both good times and challenging markets.

This material is intended to be educational in nature, and not as a recommendation of any particular strategy, approach, product or concept for any particular advisor or client. These materials are not intended as any form of substitute for individualized investment advice. The discussion is general in nature, and therefore not intended to recommend or endorse any asset class, security, or technical aspect of any security for the purpose of allowing a reader to use the approach on their own. Before participating in any investment program or making any investment, clients as well as all other readers are encouraged to consult with their own professional advisers, including investment advisers and tax advisors. OneAscent can assist in determining a suitable investment approach for a given individual, which may or may not closely resemble the strategies outlined herein.

---

[i] Source: Bloomberg the chart shows the 10-year treasury yield plotted alongside the price of the S&P 500.
[ii] Source: Bloomberg Economics