

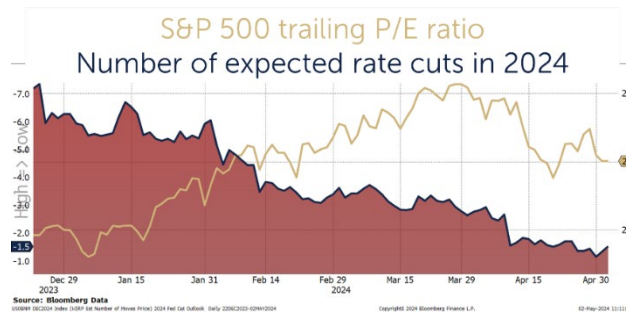
## Monthly Update – April 2024

### April review – Facing reality

*Face reality as it is, not as it was or as you wish it to be.*

– Jack Welch

The most important driver of strong stock performance in 2024 has been collective belief in the **narrative that the economy can achieve a soft landing**. This led to strong returns and expanding PE ratios while the market processed the reality that the Fed would not aggressively cut rates in 2024, as illustrated in the chart below.



During the first quarter, the stock market met the reduction from seven expected rate cuts to only three with yawns, as momentum prevailed.

April brought a dose of reality; inflation is higher than expected, only one rate cut is priced in, and growth estimates have stagnated.

The hoped-for soft landing is not the only scenario that we and the market watched in April. Inflation **may not decline** as much as we hoped, and the economy - and corporate profits - **may not be as strong** as we anticipated at the beginning of the year.

Will inflation derail the Fed? Will the economy stagnate? Both are possibilities.

### April Market Review

Markets retreated in April:

- Stocks and bonds lost out in a one-two punch of reality; **inflation fears hit bonds, and growth fears hit stocks.**
- Economically sensitive small-cap stocks underperformed large-cap stocks.
- International stocks were a bright spot as lower expectations limited downside.

Market Returns Ending 4/30/2024			
Category	April	YTD	1 Year
<b>US Stocks</b>			
S&P 500	-4.1%	6.0%	22.7%
Russell Mid Cap	-5.4%	2.7%	16.4%
Russell 2000 Index	-7.0%	-2.2%	13.3%
<b>International Stocks</b>			
MSCI All Country World Ex-US Index	-1.7%	3.0%	10.0%
MSCI Emerging Markets	0.4%	2.9%	10.3%
<b>Bonds</b>			
Bloomberg Aggregate Bond	-2.5%	-3.3%	-0.5%
Bloomberg US High Yield Bond	-0.9%	0.5%	9.1%

Category	April	YTD	1 Year
Russell 3000 Growth	-4.41%	6.3%	30.7%
Russell 3000 Value	-4.39%	3.9%	13.5%

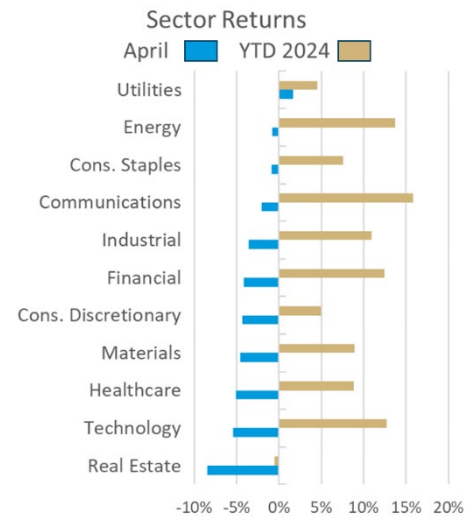
Source: Bloomberg

Stock sector movements reflected fear:

- Real Estate and Technology were the worst performers as the prospect of higher-for-longer rates hit valuations.
- A flight to safety and stability drove gains (Utilities) or lower losses (Energy and Consumer Staples).
- Growth and value sold off roughly the same amount.

Our Navigator framework informs our outlook.

### May 2024 Navigator Outlook

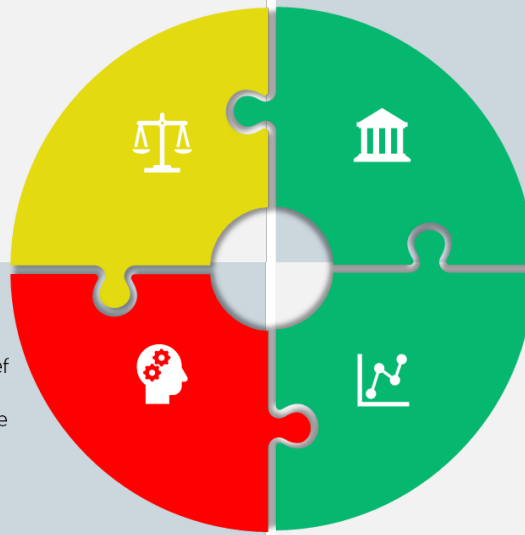


### VALUATION

- The shift from 7 expected 2024 rate cuts to just 1 has led to a decline in valuations.
- International stocks are a compelling value, trading at a greater discount than normal.
- Corporate bond premiums have narrowed, but bond yields remain attractive relative.

### SENTIMENT

- Investor sentiment, a contrarian indicator, has been bullish for several months, despite a brief decline during April's volatility.
- The Conference Board Consumer Confidence survey dropped to levels last seen during the 2022 bear market.



### ECONOMY

- US leading indicators remain in negative territory but are recovering from their lows.
- Core PCE – The Fed's preferred inflation gauge – is trending down despite some higher monthly readings in 1Q 2024.
- Profit margins are forecast to continue their recovery from 2022 lows.

### TECHNICAL

- Despite short term volatility, technicals remain healthy; the number of 52-week highs and lows suggest April's pullback was normal.
- The pullback we have experienced so far is both normal and less than average – intra-year decline have averaged 14%.



**Economy:** US leading indicators remain in negative territory but are recovering from their lows. Core PCE–The Fed's preferred inflation gauge–is trending down despite some higher monthly readings during Q1. The Street projects profit margins will continue their recovery from 2022 lows. Continued earnings growth will be a key factor in achieving a soft landing.

Technicals: Despite short term volatility, technicals remain healthy; the number of 52-week highs and lows suggest April's pullback(5.5%) was mild compared to the average intra-year decline of 14%.

Sentiment: Investor sentiment, a contrarian indicator, has been bullish for several months, despite a brief decline during April's volatility. The Conference Board Consumer Confidence survey dropped to levels last seen during the 2022 bear market.

Valuation: The shift from seven expected 2024 rate cuts to just one has led to a decline in valuations. International stocks, however, are a compelling alternative, trading at a greater discount than normal relative to US large cap stocks. Corporate bond premiums have narrowed, but bond yields remain attractive relative to stocks.

### **Outlook and Recommendations: "Face reality as it is!"**

Angst over inflation and a recession has crept into the conversation, but neither outcome is yet a reality. We believe investors should pay less attention to forecasting what could go wrong and spend more time positioning their portfolios to endure whatever may be around the corner. This is the work we are doing, staying focused on avoiding bad outcomes by constructing portfolios likely to hold up during an inflationary or recessionary scenario:

- 1) **Growth and high inflation** – A "no landing" scenario of higher inflation would cause the Fed's to raise rates instead of lower them, and this would surprise analyst consensus. We have seen some inflationary bumps over the last couple of months and are monitoring the data closely.
- 2) **Recession with higher unemployment** – The "hard landing" scenario would likely disrupt consumers, corporate profits, stock markets, and the Fed. The job market appears to be softening, but if weakness accelerates, the consumer (which accounts for 2/3 of US GDP) would suffer.

### **Portfolio positioning**

Our portfolios remain balanced, with exposures to assets that prepare us for either scenario, maintaining a **long-term horizon**. One key principle of portfolio construction is that **starting points matter**. Starting points refer to valuation of the asset as well as its economic outlook.

The starting point today for the S&P 500 is more expensive than average; the starting point for small cap stocks and international stocks is more attractive. Both small and international equities are cheaper than US large cap stocks by many measures. However, the long-term economic outlook remains positive for all three categories, which leads us to capitalize on smaller US stock and international stock opportunities without abandoning the S&P 500.

The starting point for bonds is more attractive relative to stocks than it has been in 20 years; 2002 was the last time bond yields were higher than stocks' earnings yield as they are today. Yields on investment grade bonds are higher than they have been since the global financial crisis.

The market pulled back in April, but it was a relatively modest drop compared to expectations over the course of a normal year.<sup>1</sup> Investors need to be prepared for more volatility, so our portfolios remain diverse and robust. They are likely to profit if we experience a soft landing—the market's base case assumption—but offer defense against an inflationary environment or a recession. We encourage investors to stay 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.*

---

<sup>1</sup> Source: JPMorgan: the average S&P 500 intra-year decline in the last 44 years has been 14%, despite positive returns in 33 of those 44 years.