

Weekly Update – January 13, 2024

Market Returns Ending 1/10/2025			
Category	1 Week	YTD	1 Year
US			
Large Cap	-1.9%	-0.9%	23.6%
Mid Cap	-2.5%	-1.2%	13.4%
Small Cap	-3.5%	-1.8%	13.5%
International			
Developed	0.7%	0.4%	6.4%
Emerging	-0.6%	-0.8%	10.2%
Bonds			
Aggregate	-0.3%	-0.5%	1.3%
High Yield	0.0%	0.3%	8.9%

US Equity Style Returns			
	<u>Weekly</u>		
	Value	Core	Growth
Large	-1.5	-1.9	-2.2
Mid	-2.0	-2.0	-2.2
Small	-3.6	-3.5	-3.3
	<u>YTD</u>		
	Value	Core	Growth
Large	-0.8	-0.8	-0.8
Mid	-1.2	-0.8	0.3
Small	-2.7	-1.8	-1.0

Source: Bloomberg

Key Events: Strong jobs report underscores solid economy

The nonfarm payrolls report revealed a healthy increase of 256,000 jobs for December and an unemployment rate that edged back down to 4.1%. This is good news for the labor market and supportive for general economic activity at the start of the year.

While this may be 'good' for employment and the economy, it presents challenges for risk assets. Inflation expectations rose from 2.8% to 3.3% for the year ahead according to the preliminary University of Michigan Survey and the expectations for the number of interest rate cuts in 2025 have been reduced.ⁱ

Market review: Rising rates exposed vulnerable valuations

Bond markets sold off on strong economic data and rising inflation expectations. As a result, stock multiples declined on higher real rates.

The US dollar continued to strengthen due to the underlying resilience of the US economy. Even though the dollar ended the week on a high note, international equities managed to outperform domestic equities. Perhaps the extreme valuation differences have finally reached a level that discerning investors can no longer ignore.

Outlook: Vigilant of risks; maintaining disciplined approach

Fear of rising inflation expectations continues to weigh on the markets. As shown in the chart below, inflation expectations have risen by more than 1% since last September and have resumed the uptrend at the start of the year following several weeks of consolidation.

Higher inflation expectations have pulled real rates forward as well and that has acted as a depressant for risk asset pricing. These issues are well understood, but



a stronger economy should also lead to resilient earnings growth and that should support the theme of market broadening throughout 2025.

Inflation Expectations and Real Rates



Source: Bloomberg

OneAscent Navigator Outlook: January 2025

<h3>VALUATION</h3> <ul style="list-style-type: none"> Valuation spreads between growth and value are stocks near historic extremes Large cap equities have become more expensive measured by free cash flow yield, while mid caps have remained cheaper. The equity risk premium is near 20-year lows; bonds have become relatively attractive. 		<h3>ECONOMY</h3> <ul style="list-style-type: none"> 4Q GDP estimates remains strong despite slowing from strong 2Q and 3Q growth Inflation has crept up in the fourth quarter, remaining above the Fed's target level Stock earnings are expected to grow in 2025, with participation broadening beyond the Magnificent 7
<h3>SENTIMENT</h3> <ul style="list-style-type: none"> Investor sentiment readings are shifting towards more neutral, healthier readings. Consumer sentiment has risen in recent months but remains below pre-COVID levels Small business optimism shot up during November, as the election results signaled a major shift in economic policy. 		<h3>TECHNICAL</h3> <ul style="list-style-type: none"> The advance/decline line is beginning to stall, limiting upside potential. While the S&P 500 remains well above its 200-day moving average, fewer stocks are participating in the upside. Almost no stocks in the S&P 500 have made new 52-week highs recently, highlighting the lack of breadth.



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ⁱ Source: Bloomberg Economic Data; University of Michigan Consumer Survey (Preliminary data)

ⁱⁱ Market Returns reference the following indices: Large Cap – S&P 500, Mid Cap Growth – Russell Midcap growth, Mid Cap Value – Russell Midcap Value, Small Cap – Russell 2000, Developed – MSCI EAFE, Emerging – MSCI Emerging Markets, Aggregate – Bloomberg US Aggregate, High Yield – Bloomberg High Yield