Sanctuary 2024 Mid-Year Market Outlook

SANCTUARY WEALTH

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Executive Summary

The first half of the year saw the S&P 500 rally 15% while the Nasdaq 100 was up 17%. As we entered July, stocks continued their march higher, reaching the low end of our target range of 5600-5800. We remain comfortable with this target range, but the Bucking Bull will start to shake things up a bit. Still, we maintain that the U.S. equity market is likely to have at least a 20% gain at year-end – *on top of the 24% gain in 2023*. This would be a top 10 all-time performance for the S&P 500 in two consecutive years.

Fireworks To Spark The Bucking Bull

Equity markets have seasonal patterns, and we are now in a strong upward bias during the summer months. However, equity markets historically have a temporary peak in the summer with corrections taking place in September into October. This is a traditional pattern because many mutual fund companies have their year-end in September. October is known for sharp declines, but in reality, it is the month of major market lows that drive a rally into the end of the year, with November and December very strong seasonally. We believe this seasonal pattern of a summer peak into a fall correction is likely to happen for the second half of 2024. In fact, we could be in it already. We would expect a pullback of around 10% for the S&P 500 and deeper for the Nasdaq 100. In our view, this would be the pause that spurs the market to rally into the end of the year.

Why Just A Pause And Not A Major Peak?

Volume and market breadth are key indicators that tell us about the health of the equity market. Expanding breadth means more stocks are going up than down. Increasing net up volume also tells us there is strong buying, with many stocks participating, which is a healthy sign. This gives us confidence that this is the “pause that refreshes” for a continuation of the rally.

Secular Trend Expected To Continue Into the End Of The Decade

The equity market has secular bull & bear market cycles that last between 15-20 years. The S&P 500 went into a secular bull cycle in 2013, and Nasdaq went into a secular bull in 2017. It is our view that the end of this secular trend could come at the end of the decade, near 2029-2030. Between now and that time, we see the equity market continuing to have great gains driven by the transformational growth in the advancement of technology, particularly in Artificial Intelligence (AI) and the unprecedented amount of monetary and fiscal stimulus that has entered the economy. So, expect the market to be celebrating with fireworks for some time.

The Most Disturbing Fireworks Are In Washington

The equity market is driven by the growth or contraction in earnings. The current economic environment and technological innovation – along with good corporate cost controls – are driving earnings to expand, which is driving equity prices higher. This is important to remember when we approach the politics of Washington. After weeks of political drama involving the Democratic Party’s support for President Biden following his disastrous performance against Donald Trump in the June 27th CNN Presidential debate, Biden announced on July 21st that he was dropping out of the November presidential election. He’s endorsing his Vice President Kamala Harris instead. As the Democrats now scramble for clarity around their ticket ahead of next month’s Democratic National Convention in Chicago, the entire election process will prove to get more complicated – with the ultimate outcome as the top-of-mind concern for most investors. Prior to the Biden announcement, polling and betting sites were predicting a win by former President Trump. As for the impact on markets, stocks are already pricing in a Trump win. But the November election is a “long ways away,” so polling and market positioning can change – and do so quickly.

Celebratory Fireworks Are Also In The Fixed Income Market

We have been of the belief that interest rates have peaked for this cycle, and we expect rates to continue to fall into the end of the year. Recent economic data has been coming in a bit weaker, allowing rates to fall. The June Jobs report came in slightly dovish. The job market has shown signs of growing but at a slower pace. The unemployment rate continued to tick up slightly to 4.1% (from 4.0% in May). This is up significantly from the low of 3.4%, first set in January 2023. On the manufacturing side, we are getting some softness in the data. We are also watching consumer data closely, as consumers are still spending, but at a more moderate pace and more selectively. We believe if the inflation data continues to come in as expected or lower, the Federal Reserve (Fed) will feel comfortable in beginning to cut interest rates in September.

U.S. Driving Global Growth And Productivity

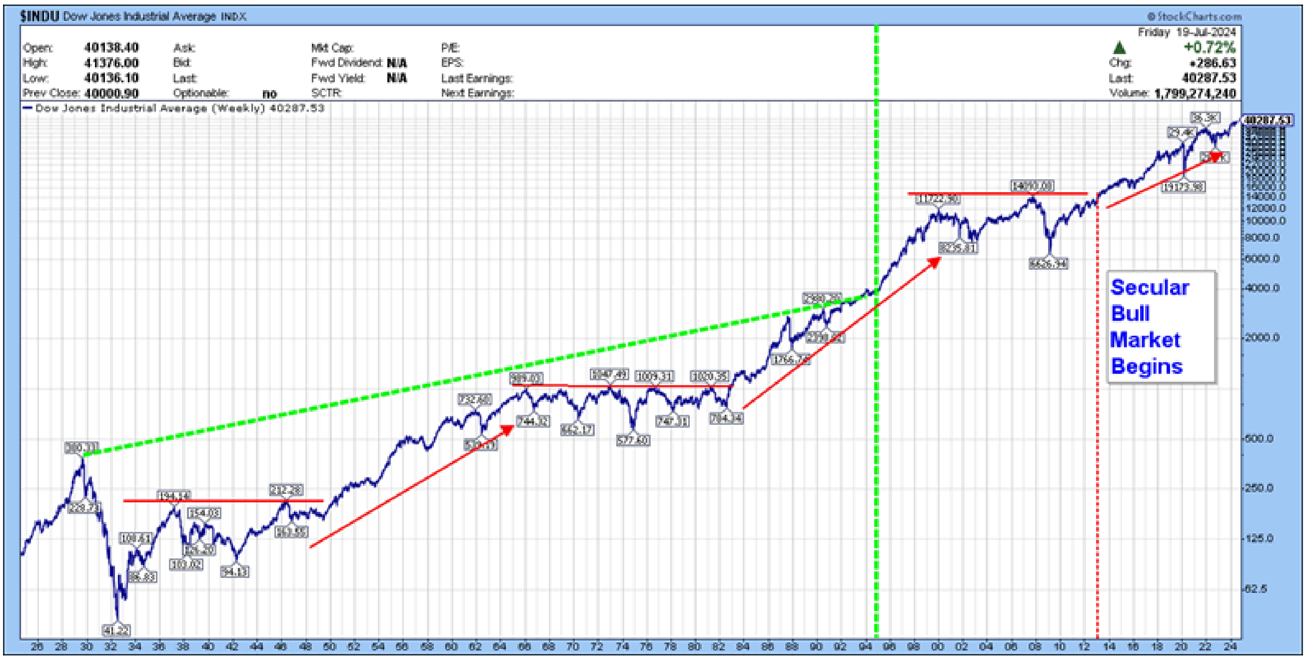
On a global scale, it is important to realize the U.S. is more innovative and has a more flexible financial economy than any other country in the world. This has driven the U.S. to have the strongest economy in the world. According to Fed Chair Jerome Powell, the U.S. economy has had 2% productivity enhancement per year over the last 40-years – compared to versus Europe having only 1% productivity enhancement over the period. This has led the U.S. economy to be more dynamic, innovative, and financially supported – which in turn has led to faster-producing, more diverse, and stronger earnings growth. Remember: most leading technology companies and innovators of technology are in the U.S. The result of all this has been superior equity returns.

Positioning

We favor equities over fixed income and favor fixed income over cash. With the Fed expected to lower interest rates, the risk is cash yields will fall. Within equities, we favor Growth over Value and Mega Cap over Small. We continue to believe that Technology and Tech-related stocks are the leadership of the market, with Semiconductors the Leaders of the Pack. We also favor Industrials. Our favorite Value sector is Energy. Utilities and Real Estate Investment Trusts (REITs) benefit from lower interest rates; these last two sectors appear to be bottoming and have attractive yields.

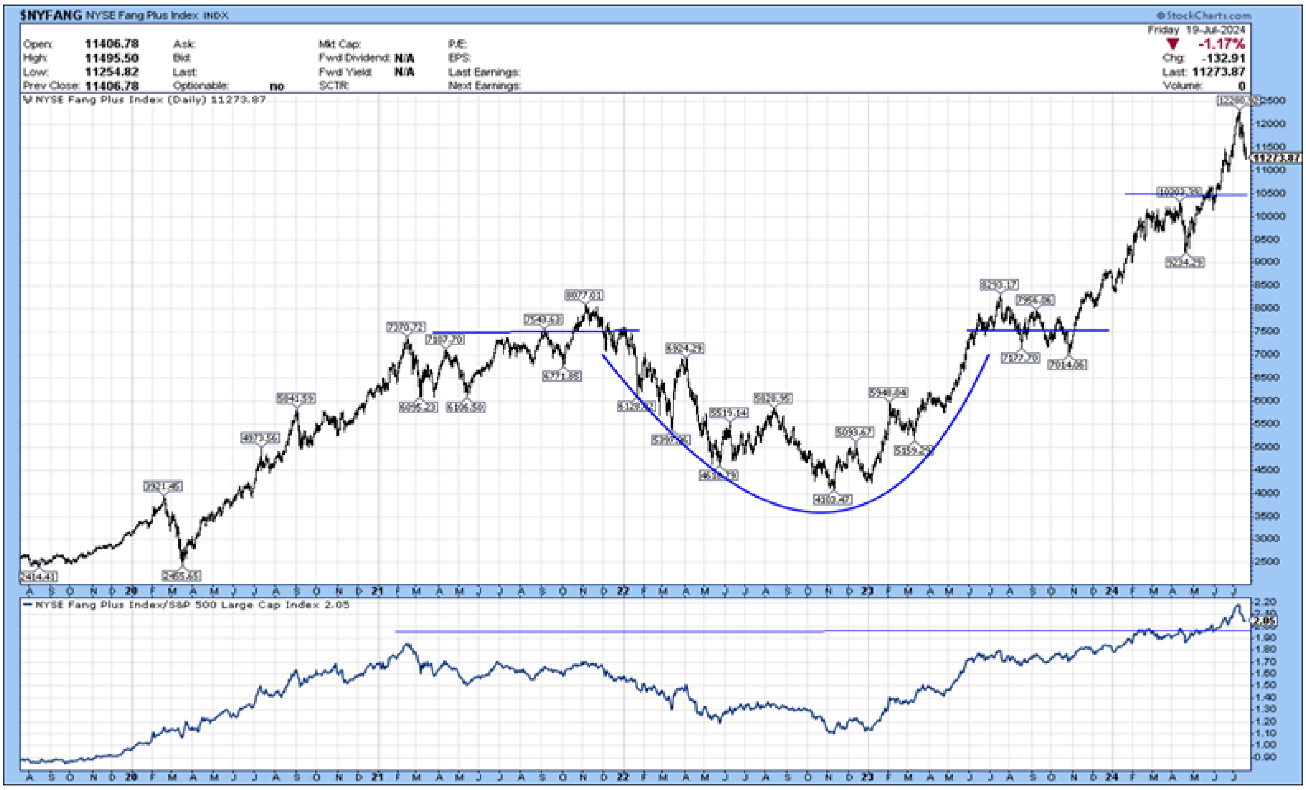
Equity Markets Remain In A Secular Bull Market

Dow Jones Industrial Average

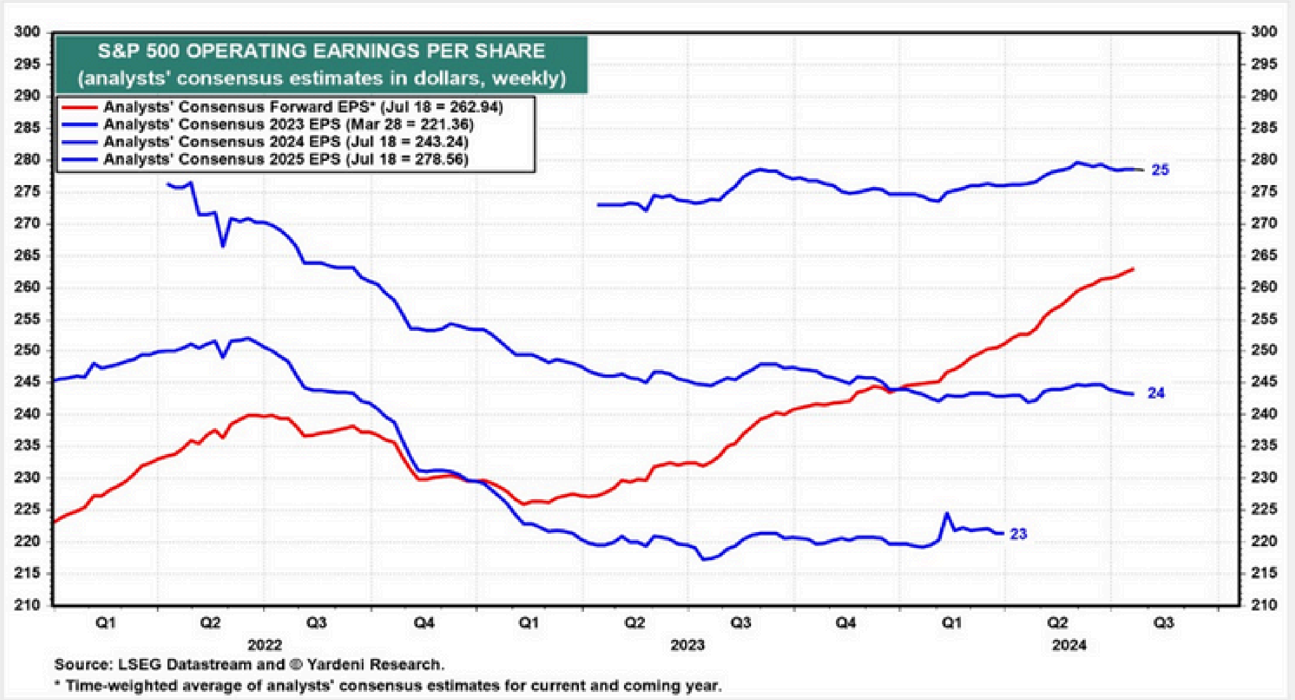


NYFANG Plus Index Remains Leadership – Correction In Strong Bull Trend

NYFANG Index (Top) With Relative To S&P 500 (Bottom)



Forward S&P 500 Earnings Continue To Rise To Support A Continued Rally Into Year-End



Source: Yardeni Research, July 18, 2024

BofA Sell Side Indicator Still Bullish Estimating An Additional 13% Gain For Stocks

Exhibit 1: Equity sentiment was unchanged in June

Sell Side Indicator, 8/1985-6/2024

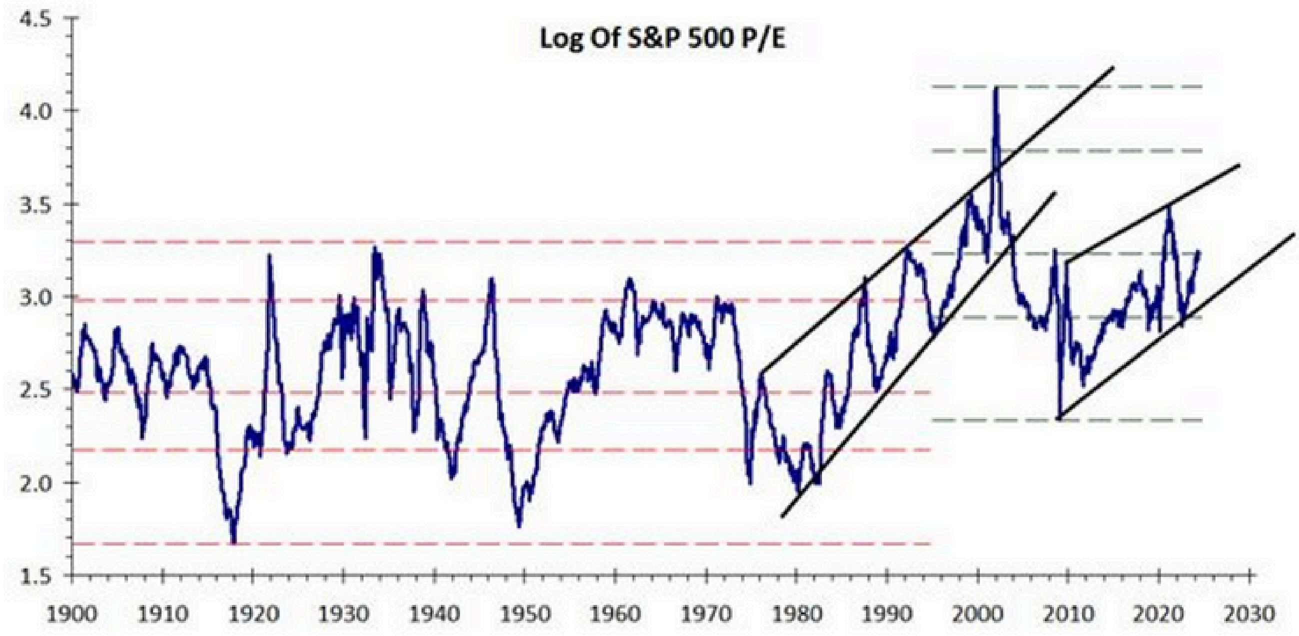
Source: BofA US Equity & Quant Strategy Note: Buy and Sell signals are based on rolling 15-year +/- 1 standard deviation from the rolling 15-year mean. A reading above the red line indicates a Sell signal and a reading below the green line indicates a Buy signal

BofA GLOBAL RESEARCH

Source: Bank of America, July 1, 2024

Price/Earnings Ratios Expand In Secular Bull Markets

P/E Are High But Going Higher



Source: Standard and Poor's', Sanctuary Wealth, July 11, 2024

Growth Having A Tactical Correction: Still Favor Growth Over Value

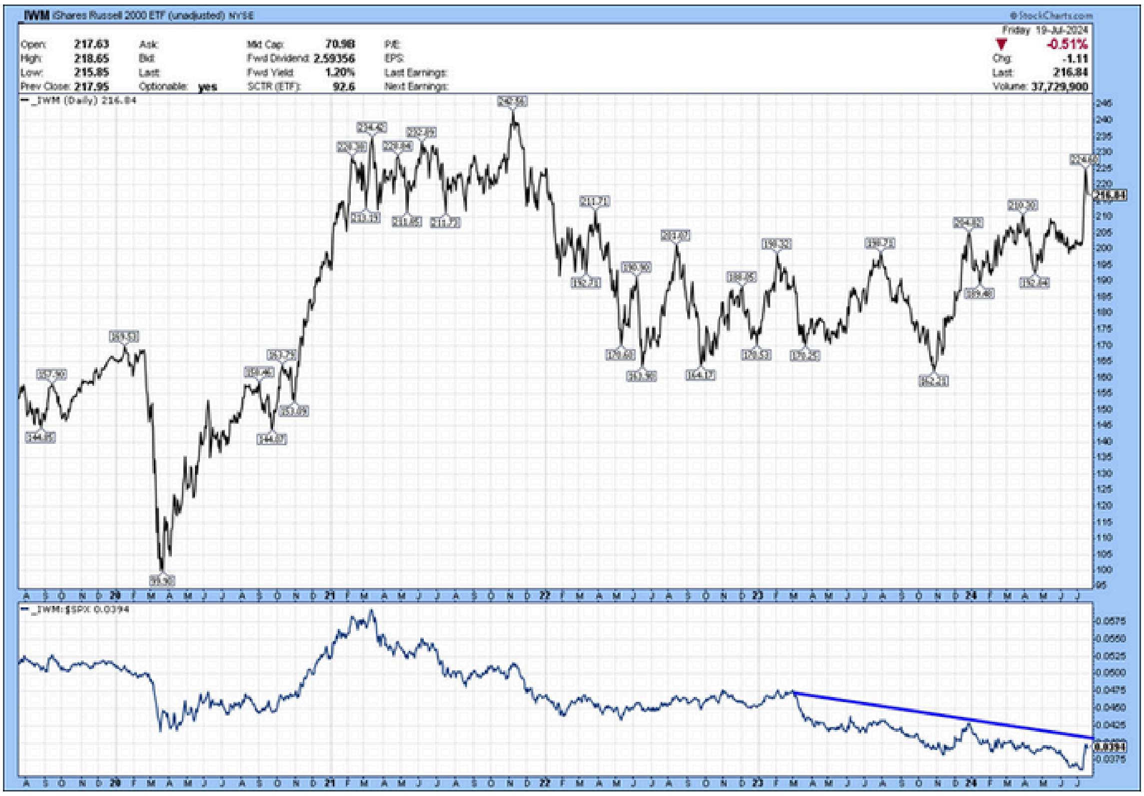
Earnings Remain More Robust For Growth Stocks

iShares Russell 1000 Growth vs. Russell 1000 Value

Favor Mega Cap Over Small Cap: Earnings Still Weak For Small Caps

Small Caps Remain In A Secular Downtrend Relative To S&P 500

iShares Russell 200 Small Caps (Top) Relative To S&P 500 (Bottom)



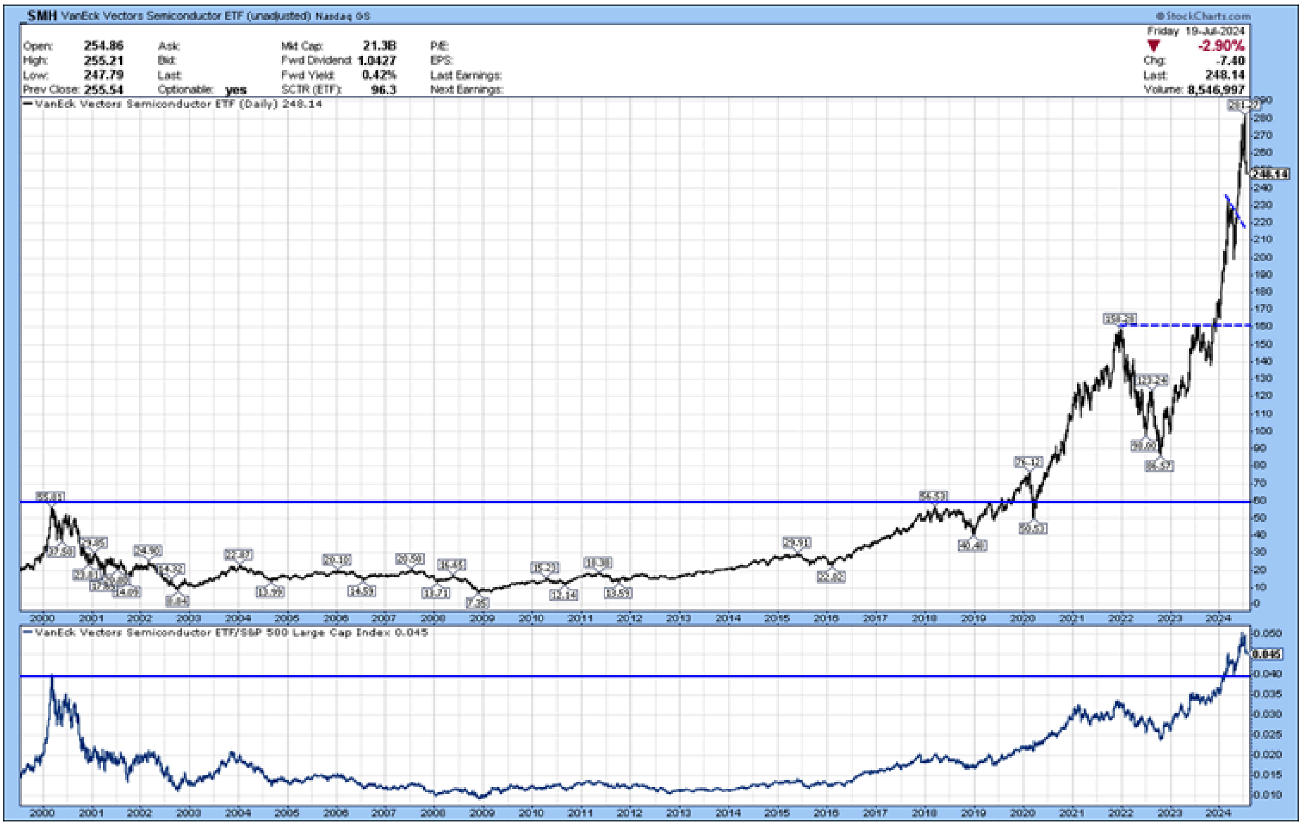
Percent of Small Cap Non-Earning Companies Hits Nearly 44%!

Percent Of Non-Earning Companies			
	Current Reading	Long-Term Average	Highest Reading Since 1990
Russell 1000 Growth	13.0%	11.2%	33.5%
Russell 1000	15.5%	11.9%	28.4%
Russell 1000 Value	15.2%	12.8%	37.0%
Russell 2000 Growth	46.4%	30.3%	54.8%
Russell 2000	43.5%	28.2%	48.6%
Russell 2000 Value	42.2%	25.8%	46.2%

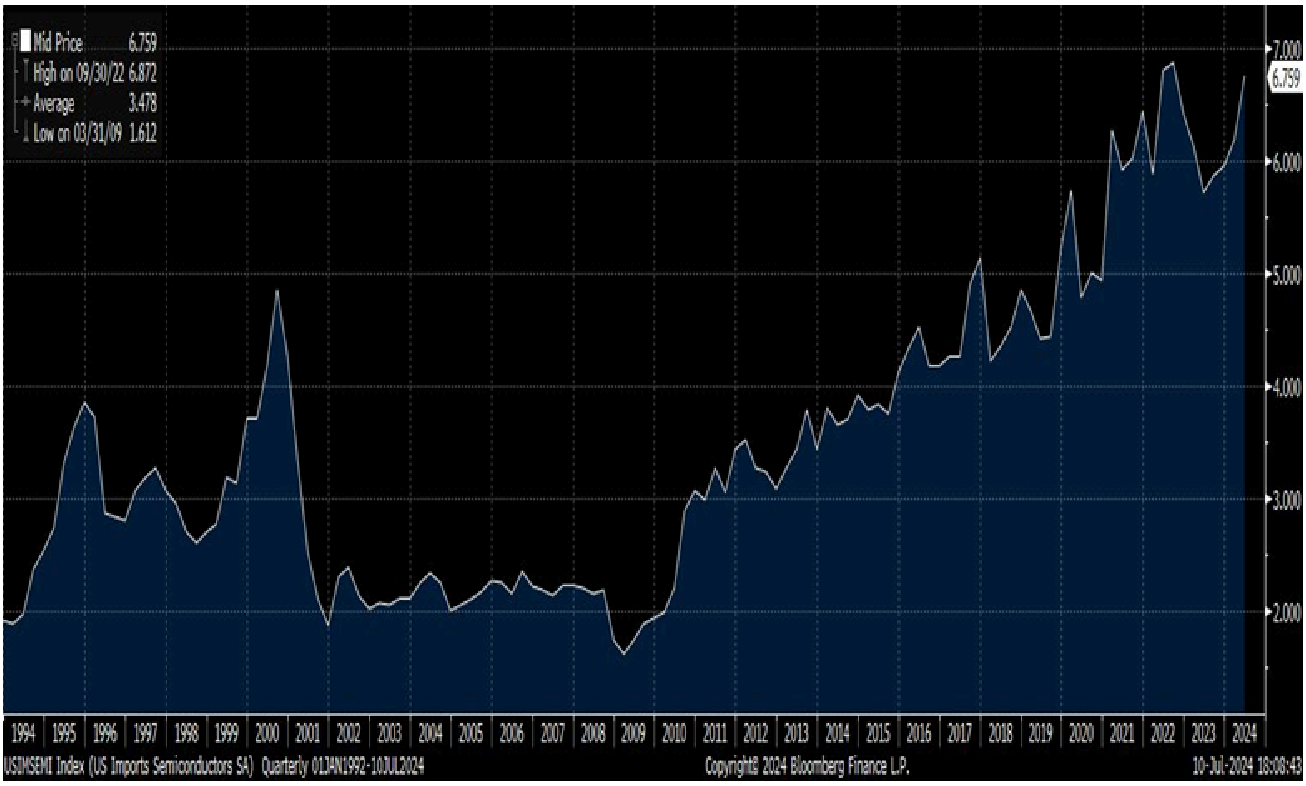
Source: Strategas, July 19, 2024

VanEck Semiconductor ETF (SMH): Semis Remain Leader Of The Pack In A Bullish Correction

VanEck Semi ETF (Top) With Relative To S&P 500

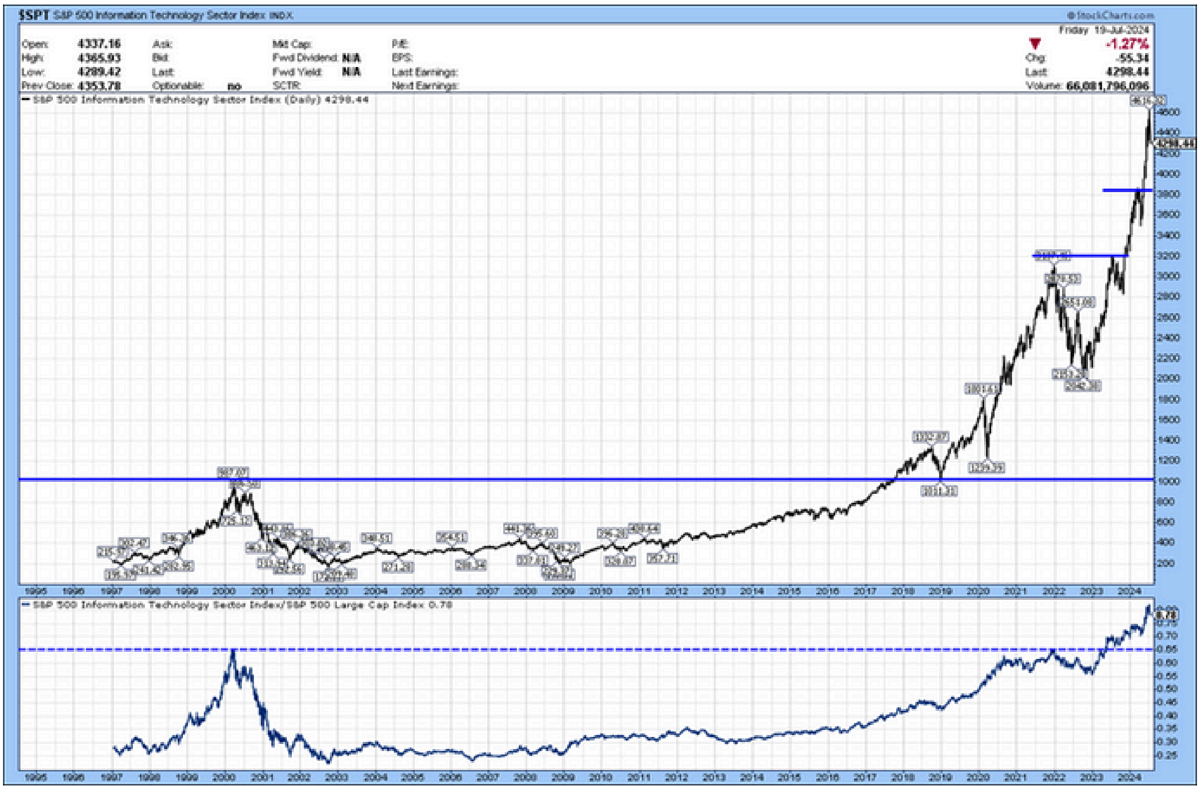


US Imports of Semiconductors Rapidly Rising: AI Will Drive This Higher



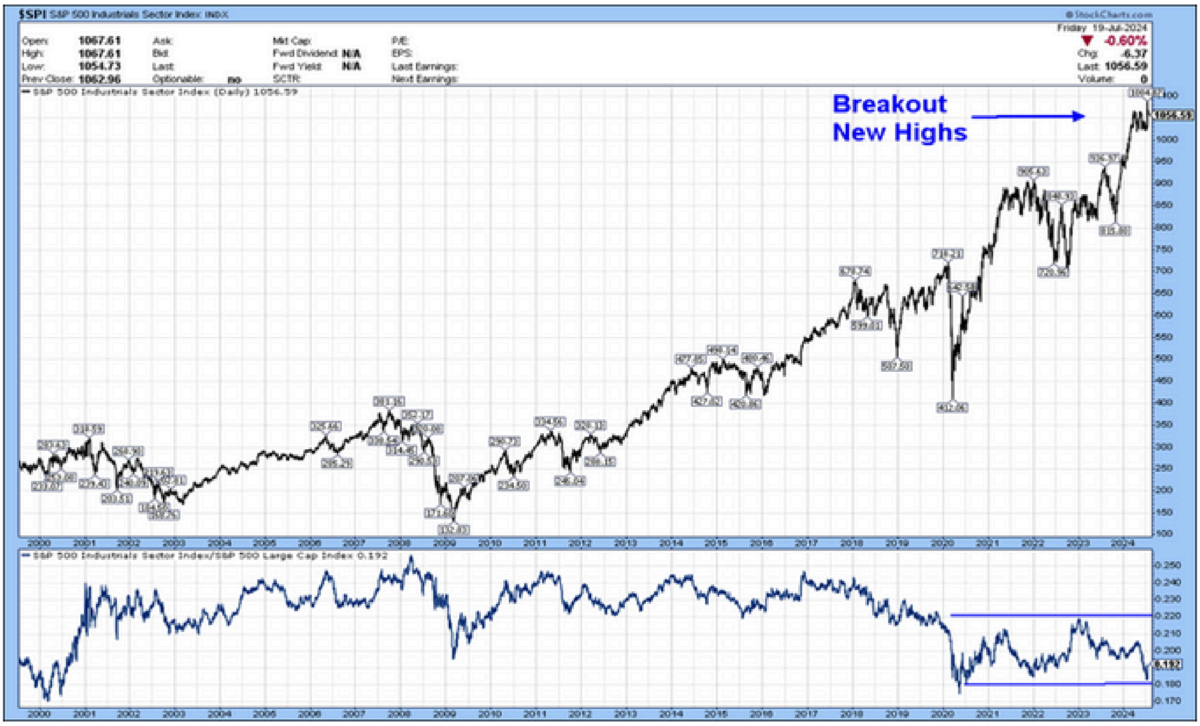
Technology Is The Secular Leadership Sector But Experiencing A Correction

S&P 500 Technology With Relative To S&P 500



Industrials Still Emerging Leadership & Benefit From Infrastructure Investment

S&P 500 Industrials (Top) Relative To S&P 500 (Bottom)



Energy: The Best Value Sector

S&P Energy (Top) With Relative To S&P 500 (Bottom): Still Testing Highs

Utilities & REITs Benefit From Lower Rates: Both Appear To Be Bottoming

S&P Utilities (Top) With Relative To S&P 500 (Bottom): Still Testing Highs

S&P REITS (Top) With Relative To S&P 500 (Bottom): Attempting A Breakout

Presidential Cycle S&P 500 Returns By Party- First Year Returns Generally Down Especially Under Republican Second Term

Table 8: T-stat values for S&P 500 returns for US Presidential Cycle scenarios: 1872-2023

The largest full-term T-stat value for SPX returns occur during a Democratic president's first term.

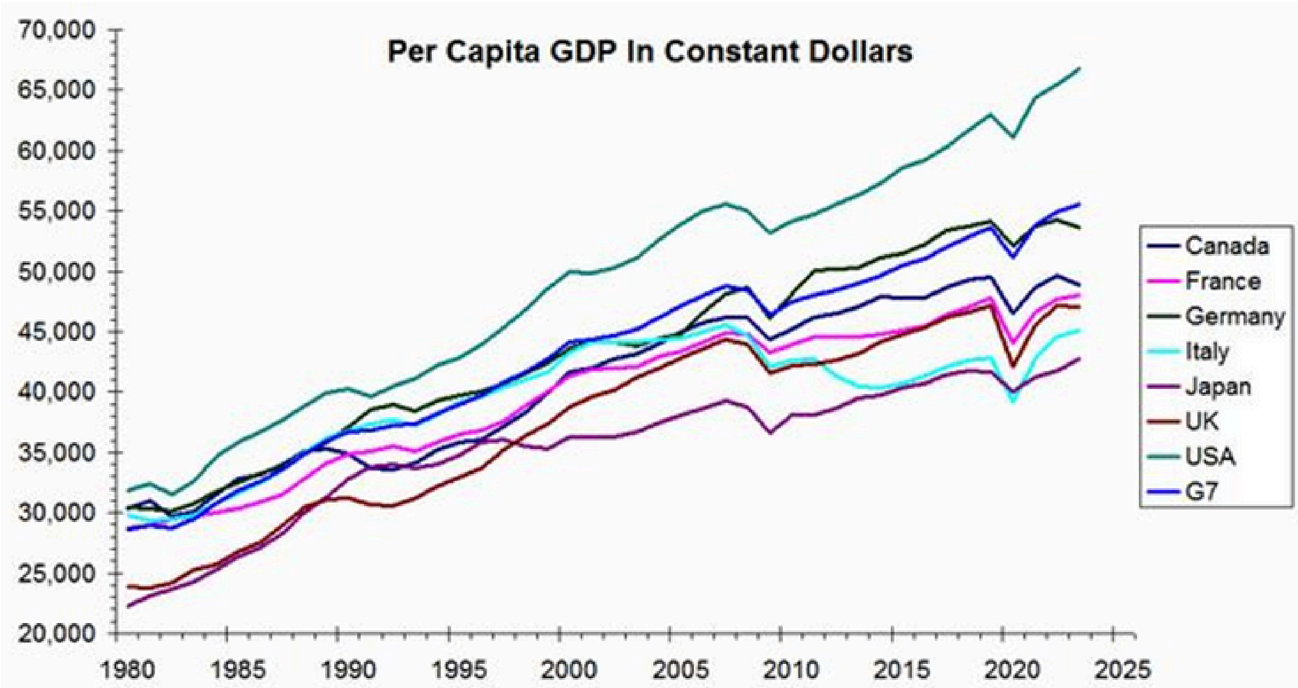
Presidential Cycle Scenario	Year 1	Year 2	Year 3	Year 4	Full term
Republican	-0.59	-0.07	-0.55	0.13	-0.43
Democrat	0.39	0.10	0.96	-0.20	0.49
1st term Presidencies	0.75	-1.48	0.55	1.24	0.60
2nd term Presidencies	-0.91	2.02	-0.98	-1.10	-0.94
Republican first term	-0.20	-0.40	-0.01	0.71	0.23
Democrat first term	1.24	-2.76	1.08	1.17	0.66
Republican second term	-0.67	0.42	-1.09	-0.43	-1.55
Democrat second term	-0.62	5.89	-0.03	-1.33	-0.05

Source: BofA Global Research, Bloomberg, Global Financial Data (GFD)

BofA GLOBAL RESEARCH

Source: July 5, 2024

U.S. Still Has The Strongest Economic Economy In The World! U.S. Is The Epicenter Of Technology Innovation, Flexible Job Market & Available Financing



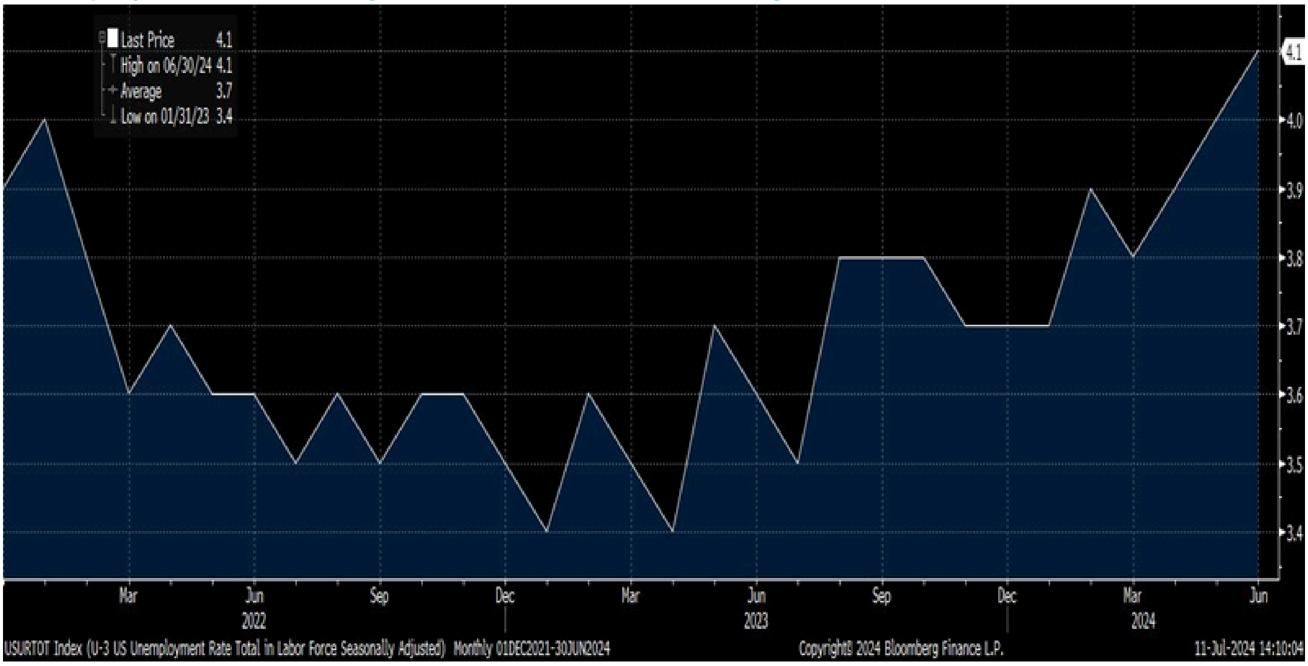
Source: International Monetary Fund, Bloomberg, Sanctuary Wealth, July 8, 2024

With Inflation Falling & Jobs Softening, The Fed Looks To Cut Rates In September

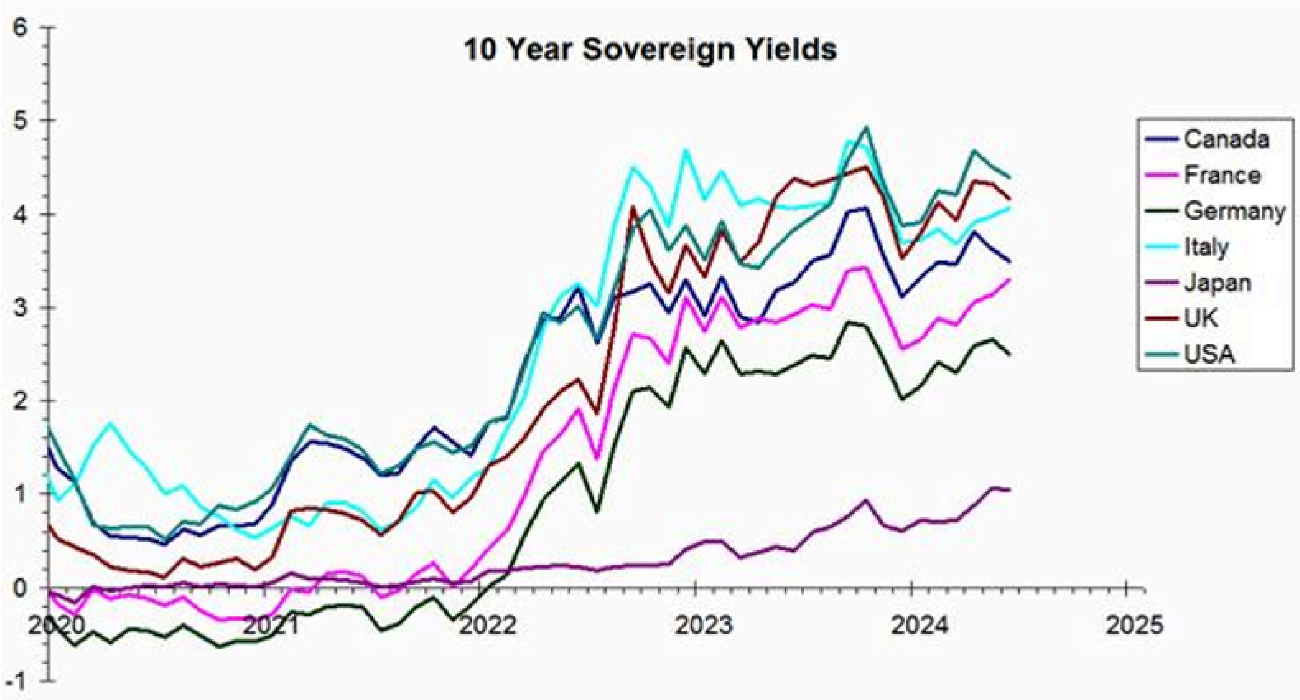
Consumer Price Index Year-to-Year: Inflation Has Peaked

Continuing Unemployment Claims: Softness In The Jobs Market

Unemployment Rate Rising from 3.4% to 4.1% Confirming Job Market Softness



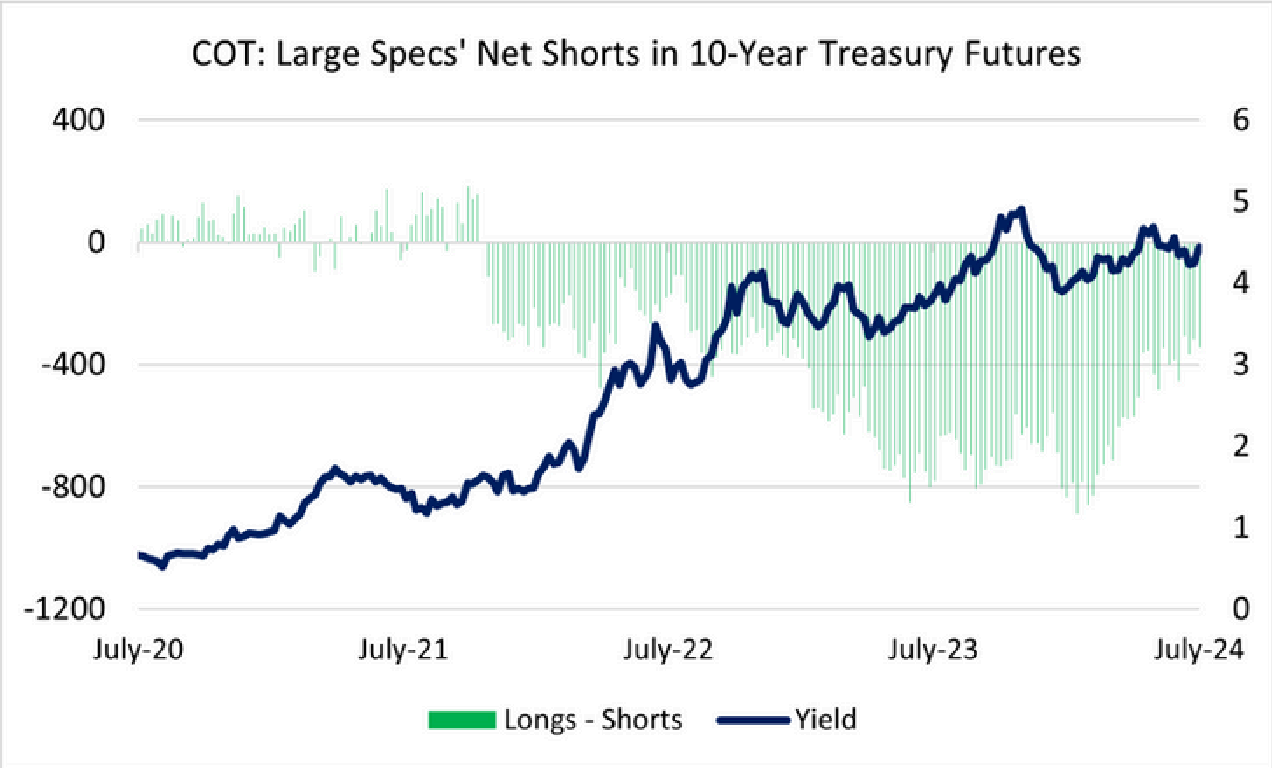
U.S. Has The Highest Developed Sovereign Yield – Capital Will Come To The US Plus Higher Yields Support A Strong US Dollar



Source: International Monetary Fund, Bloomberg, Sanctuary Wealth, July 8, 2024

10-Year Treasury Yield Has Peaked Could Track Down To 4%

Fast Money Short 10-Year Treasuries – Covering Would Drive Rates Down



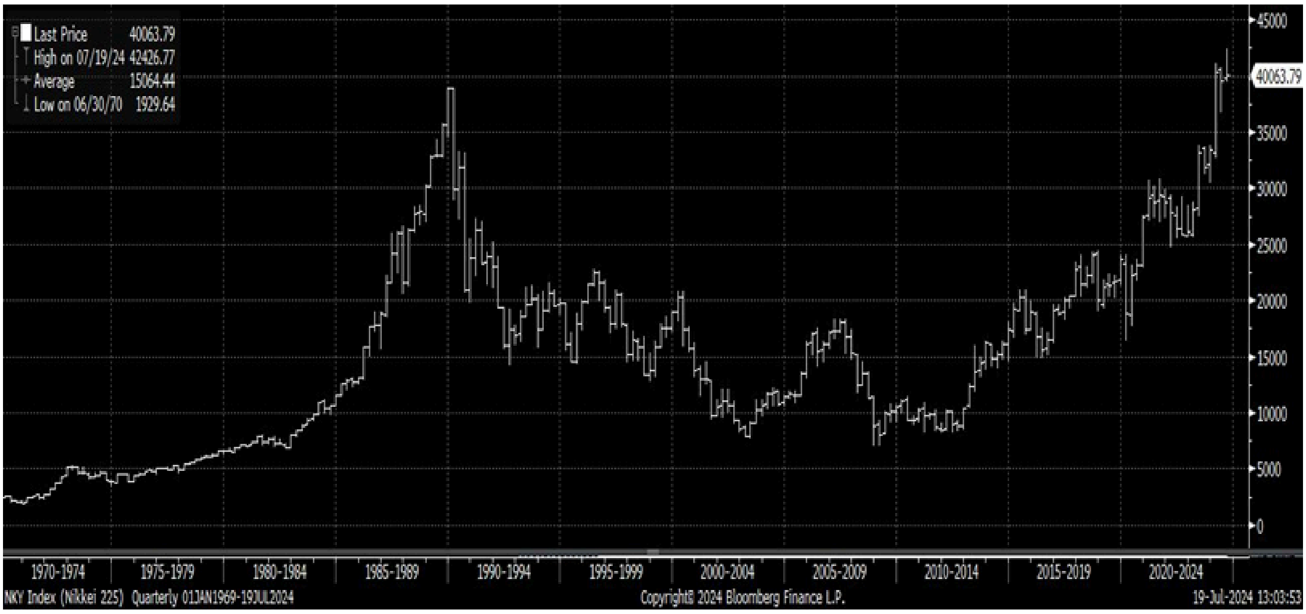
Source: Commodity Futures Trading Commission, Bloomberg, Sanctuary Wealth, July 20, 2024

2-Year Treasury Yield Has A Significant Technical Breakdown Pointing To Lower Yields

Japan: The Best International Market

We believe the Japanese equity market went into a new secular bull market this year. This is our favorite developed international market. But their currency is depreciating, so we would hedge the currency.

Japanese Nikkei 225 In A New Secular Bull Market



Japanese Yen Is Depreciating

India's Equity Market Also In A Bull Trend

India Is A Beneficiary From Diversification Away From China iShares MSCI India ETF (INDA)

Last Words

We have been saying "Buy in May and sell by Labor Day." The market is showing signs of extreme bullish sentiment and positioning. It is highly likely that the market is in the process of making a summer top that leads to a deeper correction in the fall months (more bucking). The Fed is expected to cut interest rates by 25 basis points in September. Could this be "buy the rumor, sell the news" scenario? We think "Yes!" In our view, stocks should correct but rally sharply into year-end, so we remain buyers of this market. The positive impact of AI on the economy and markets is undeniable – and appears sustainable.

There are five risks to our point of view, and any one of the following scenarios could overturn our outlook.

1.Inflation remains sticky, and the Fed stays on hold or needs to raise interest rates. We believe this probability is low.

2. S&P 500 earnings estimate revisions begin to go negative. We believe this probability is low.

3. Regional banks are under pressure due to loan losses resulting from commercial real estate bankruptcies and/or loan defaults. For this year, we think this probability is low. This risk would increase if/when the economy has a significant slowdown or recession.

4. The consumer contracts spending. The consumer makes up 70% of GDP growth. This probability is neutral as we are seeing the consumer slow consumption spending.

5. WTI crude oil prices move and stay above $100. This probability is low.

Note: the absence of any interest rate cuts in 2024 would not be a risk to our outlook as it's worth remembering that there were no rate cuts in 2023 (despite the market expecting them then too) – and still the S&P 500 rallied 24% on the year.

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