

 Week of  
**March 6, 2023**

## And So, We March Forward

**Equity markets through the month of February have been consolidating the strong rally that emerged at the start of the year. Near term, there are oversold readings with the S&P 500 holding its 200-day moving average (3940, as of March 3) – at least so far.**

Turning to market breadth, the McClellan Oscillator, which measures momentum in market breadth similar to the MACD (moving average convergence/divergence), reached levels that historically have seen equity markets rally. Meanwhile, volatility measured by the VIX index is falling. This data points to a market that can rally or at least remain in a trading range. Many market participants are confused as to why the market has not fallen more, considering that interest rates are now expected to reach and possibly exceed 5%. The likely reason is that, back in December, most sentiment surveys showed an extremely bearish bias with investment positions very defensive, including investors stockpiling mountains of cash. When most investors are positioned the same, the opposite generally happens. Note: sentiment indicators are contrarian by their nature.

### Unusual Market Characteristics

This is a challenging market, but we firmly believe it is a secular bull market. Although employment remains strong, we do believe that inflation has peaked. Markets are likely to remain volatile until the Fed stops raising rates – or the fear of higher rates dissipates.

Another curiosity about this market is that stocks are not correlated in one single direction. Some pockets of the market are doing well while others are not. Higher interest rates are clearly impacting the market overall, but not all negatively. This is a market where quality and diversification are important in a portfolio. In fixed income, with rates still rising, laddering maturities is a good strategy to stagger maturities, particularly on the short end.

This gives investors the opportunity to reinvest at higher rates as terms expire or to reallocate the funds elsewhere. Investors need patience not just in a bear market, but when the bear is recovering. We believe markets have the ability to trend higher into the summer months.

### 2-Year Treasury Yields Highest Since 2007

Short rates continue to rise as recent inflation data has come in hotter than expected. Yields on the 2-year Treasury have reached the highest since 2007 and if they hit 5%, it will be the highest since 2006. Higher short rates are hurting some pockets of the market, like Utilities and Real Estate. And as long as rates remain elevated, these sectors are likely to stay under pressure. On the contrary, other areas are strong, including – surprisingly – in the cyclical area of the market in the Industrials sector.

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## 2-Year Treasury Yields



Source: Bloomberg, March 3, 2023

## Sector Focus: Industrials

This week, with our gallery of charts below, we highlight interest rate sensitive areas that are under pressure, such as Utilities and Real Estate. One area of the market we continue to like that is performing is Industrials. We have talked a lot about the Aerospace & Defense industry group, which is part of the Industrial sector, and how it is benefiting from increased war spending, which has reached \$2 trillion globally, with the U.S. in for \$113 billion.

Back in November of 2021, the Infrastructure Investment and Jobs Act, also known as the Bipartisan Infrastructure Bill, was signed into law. With great benefit to the Industrials sector, the law provides for \$1.2 trillion in federal spending over five years. Among other provisions, the new funding for infrastructure projects will cover:

**Roads and bridges**  
Public transit  
Airports  
Clean school buses and ferries

**Passenger and freight rail**  
Broadband  
Water infrastructure  
Electric vehicle charging

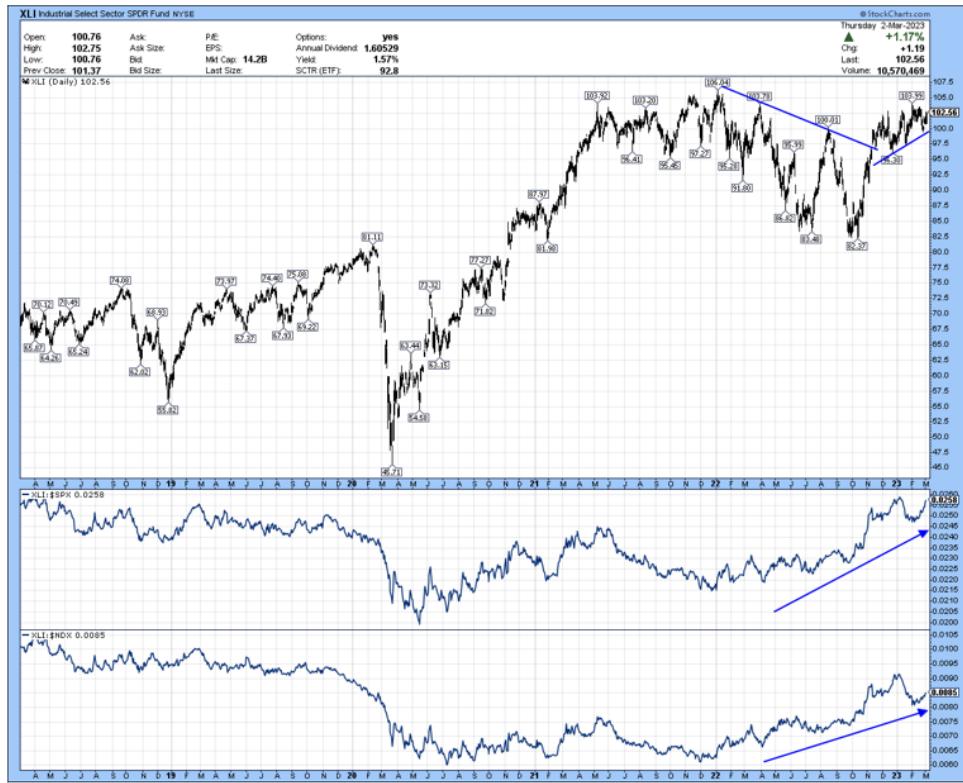
**Highway and pedestrian safety**  
Ports and waterways  
Power and grid reliability  
Western Water Infrastructure

Projects will also cover resiliency, including funding for coastal resiliency, ecosystem restoration, and weatherization. Funds will be used to address legacy pollution by cleaning up Brownfield and Superfund sites and reclaiming abandoned mines.

Another industry group we highlight this week is Transportation, which is showing strength both within Industrials and relative to the S&P 500 and Nasdaq 100. We also take a look at a stock in the Industrials sector that hit a record all-time high in mid-February: Eaton Corporation PLC (ETN) which manufactures engineered products for the industrial, vehicle, construction, commercial, and aerospace markets. Conducting business worldwide, Eaton offers hydraulic products and fluid connectors, electrical power distribution and control equipment, truck drivetrain systems, engine components, and a wide variety of controls. The stock is up 13% year-to-date and is outperforming both the S&P 500 and Nasdaq 100.

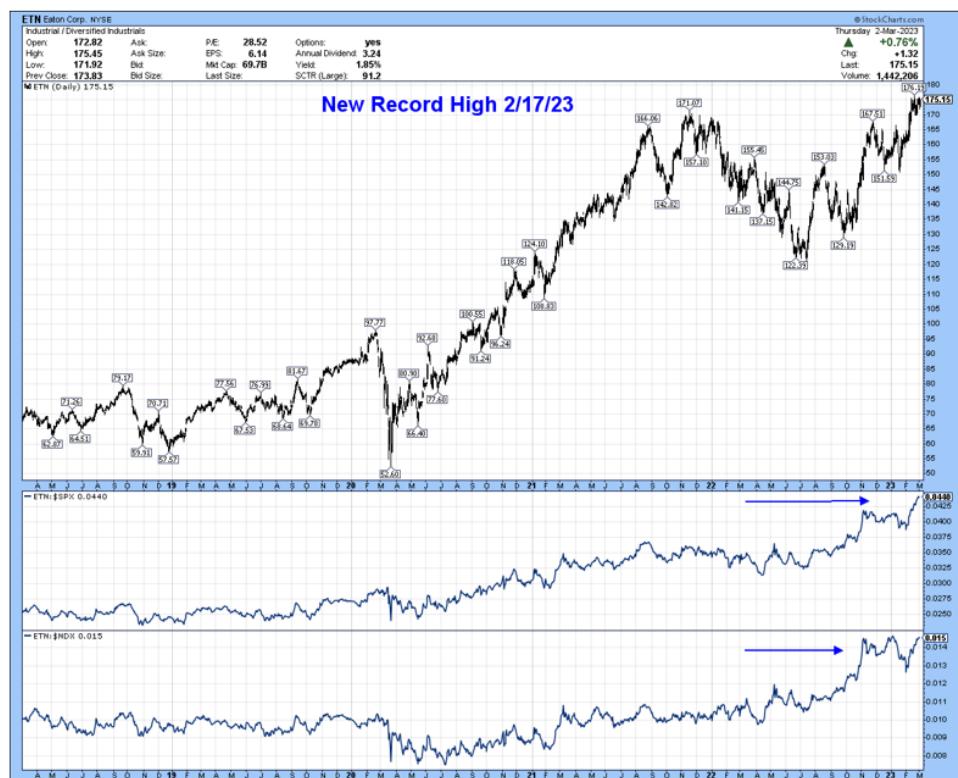
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**SPDR Industrials ETF (XLI)**



Source: StockCharts.com, March 2, 2023

**Eaton Corporation PLC (ETN)**



Source: StockCharts.com, March 2, 2023

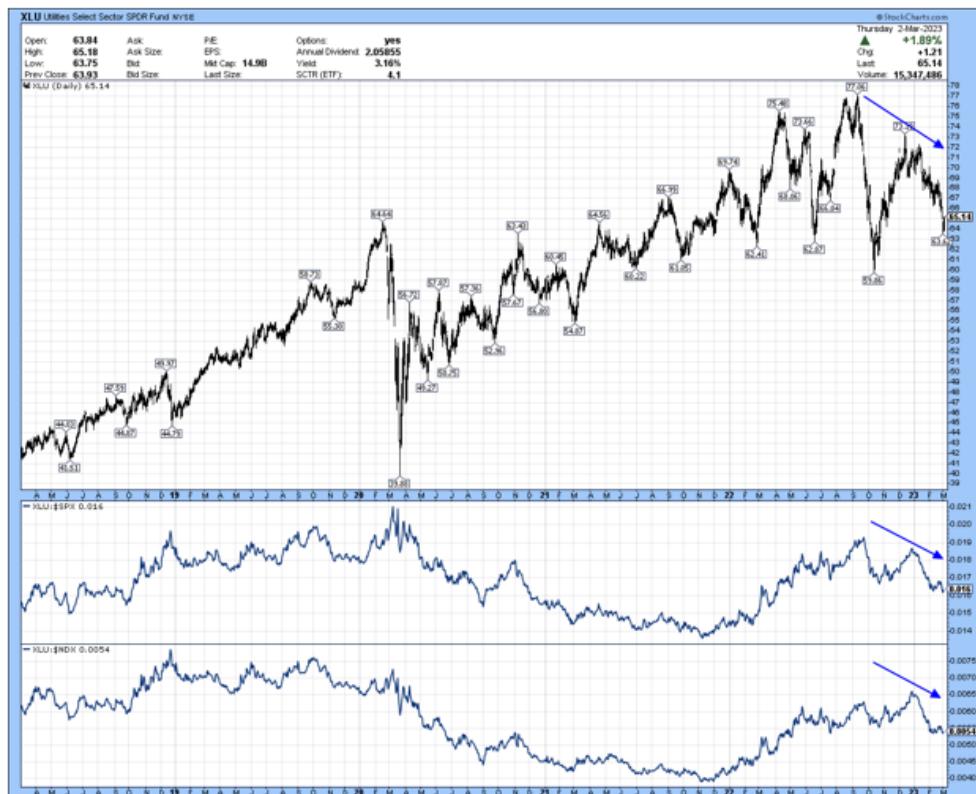
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**SPDR Transportation ETF (XTN)**



Source: StockCharts.com, March 2, 2023

**SPDR Utilities ETF (XLU)**



Source: StockCharts.com, March 2, 2023

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**SPDR Real Estate ETF (XLRE)**



Source: StockCharts.com, March 2, 2023

**Significant Change to Growth & Value Indices**

In January, a major – significant! – change was made to the Growth and Value indices. Energy came out of Value and into Growth, that's a huge shift! Materials also moved into Growth. Technology was shifted the other way – and that's the biggest cut to Growth, but it actually represented only a modest add to Value. These changes may impact how these indices perform. Something we will most certainly be watching closely. For now, we still favor Value over Growth.

**Pure Growth & Value Sector Weight Changes**



Source: Bloomberg, March 2, 2023

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**Jobs Jobs Jobs**

## This is the week when it's all about J-O-B-S.

The Fed doesn't meet until March 21st, but the run up to the meeting will be chock full of data, beginning with several "all-eyes" employment reports this week.

But before we get to the numbers, Chair Powell will address the U.S. Senate Committee on Banking, Housing, and Urban Affairs, providing the Fed's Semiannual Monetary Policy Report to Congress. You know that everyone will be watching and listening at 10am ET on March 7th.

Then on Wednesday, we'll see both the ADP Employment Report, which covers private-sector employment, and the Job Openings and Labor Turnover Survey (JOLTS) report. Then jobless claims on Thursday followed by employment and unemployment data on Friday. If the numbers come in stronger than expected, we anticipate more hawkish commentary from the Fed— that's their J-O-B! Positive data should keep the markets rallying.



# Calendar

Mon.

**10:00 a.m.** Factory orders  
**Earnings:** AeroVironment, Calavo Growers, Ciena, Lordstown Motors, Nutanix, Trip.com, WW

Tue.

**10:00 a.m.** Wholesale trade  
**3:00 p.m.** Consumer credit  
**Earnings:** Casey's General, CrowdStrike, Dick's Sporting Goods, Dole, JinkoSolar, Latham Group, Manchester United, Sea Limited, Squarespace, Stitch Fix, Sumo Logic, Thor Industries, W&T Offshore

Wed.

**8:15 a.m.** ADP employment  
**8:30 a.m.** U.S. trade balance  
**10:00 a.m.** Job openings (JOLTS)  
**2:00 p.m.** Beige Book  
**Earnings:** ABM Industries, Brown-Forman, Campbell Soup, Earthstone Energy, Ebix, International Money Express, Korn/Ferry, MongoDB, Noodles & Co, Proterra, REV Group, SmartRent, The Children's Place, United Natural Foods

Thu.

**8:30 a.m.** Jobless claims,  
**Earnings:** Allbirds, American Outdoor Brands, BJ's Wholesale, DocuSign, El Pollo Loco, FuelCell Energy, Gap, Genesco, JD.com, National Beverage, Smith & Wesson Brands, Toro, Ulta, Vail Resorts, Wheaton Precious Metals, Zumiez

Fri.

**8:30 a.m.** Employment report, Unemployment rate  
**Earnings:** Buckle

Source: MarketWatch/Kiplinger

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