



Week of
 **May 30, 2023**

A Debt Ceiling Deal is on the Table

Early in the holiday weekend, Congress and President Biden came to an agreement on the Debt Ceiling while the X date was pushed out to June 5.

In atypical fashion, equity markets rallied in May and into the Debt Ceiling negotiations with the S&P 500 rising 1.8% and the Nasdaq 100 surging 13% this month. Now the markets can focus on the fundamentals.

U.S. Inflation Picks Up, Increasing Odds of Another Rate Hike

With the Core Personal Consumption Expenditure (PCE) data coming in slightly above expectations at 4.7% versus expected 4.6%, concerns have been renewed about a further Fed interest rate hike. As we have written before, we do believe inflation has peaked, but the data flow will not be a straight line down. And the Fed did leave a window open for additional rate hikes if the data supported the move. The Fed will remain laser focused on all incoming inflation and employment data.

Artificial Intelligence Will Touch Everything

Last week NVIDIA (NVDA) reported earnings that were the biggest blow-out for a company in decades, confirming that artificial intelligence (AI) is likely the next biggest transformation in technology for the world economy. In an April 16th interview on 60 Minutes, Alphabet Inc. (GOOG) Sundar Pichai said: “[AI] is going to impact every product across every company and so that’s why I think it’s a very, very profound technology. And so, we are just in early days.” He has also been quoted as saying that AI will “touch everything: every sector, every industry, every aspect of our lives.”

In our view, digital technology will continue to be the major driver of the U.S. and global economies. There have been three main evolutions of technology in modern times: 1980s saw the introduction of the personal computer (PC), the Internet and Internet of Things arrived on the scene in the 2000s, and now in 2023, AI is being democratized around the world.

[Note that today is very different from the 2000s – when companies had extreme valuations and no earnings. Today we have real companies with real balance sheets and real earnings.]

So, during the early phases of these tech evolutions, leading stocks get very expensive and can have a dramatic stock performance. NVIDIA is a classic example of this. Some considered NVDA to be an important semiconductor company but was way too expensive to own – but now, with its blow out performance and future earnings guidance, the stock is viewed as not expensive and “worth it”! Note in the chart below that NVDA stock traded in a trading range for 18-years then broke to the upside. This stock is early in its move to the upside technically.

We’ve been positive on Semiconductors as the brightest opportunity in Technology, and with AI (another tech reliant on chips) catching fire and NVDA exploding, we reiterate our enthusiasm here.

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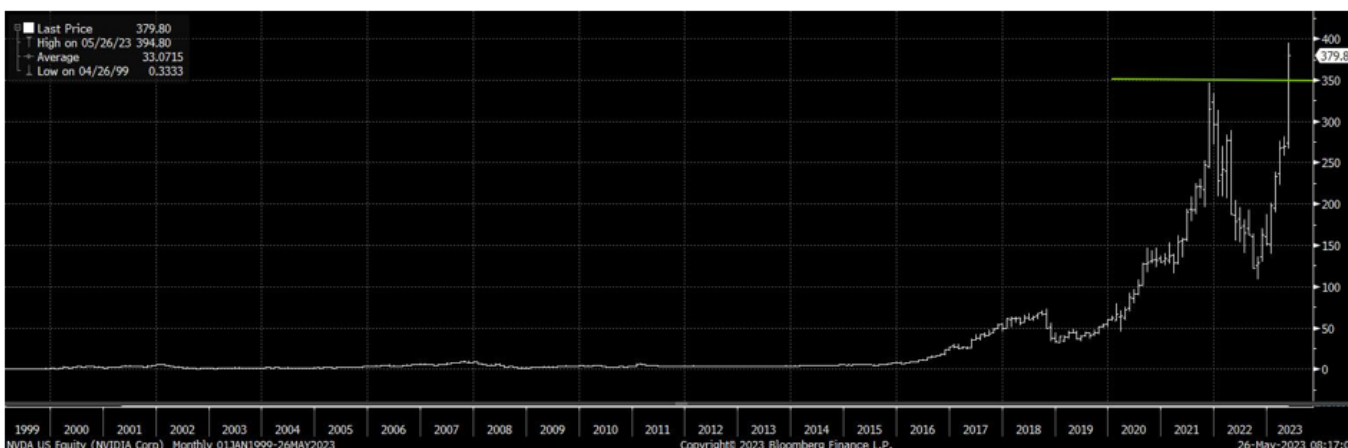
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BONUS INSIGHT: NVDA is a momentum stock* in this market yet it is not even in the iShares MSCI USA Momentum Factor ETF (MTUM) – which “seeks to track the investment results of an index composed of U.S. large- and mid-capitalization stocks exhibiting relatively higher price momentum.” Should NVDA be added to MTUM, then that would increase demand for the stock.

*What do we mean by a momentum stock? As Investopedia explains, momentum is the speed of price changes in a stock. Momentum shows the rate of change in price movement over a period of time to help investors determine the strength of a trend. Stocks that tend to move with the strength of momentum are called momentum stocks.

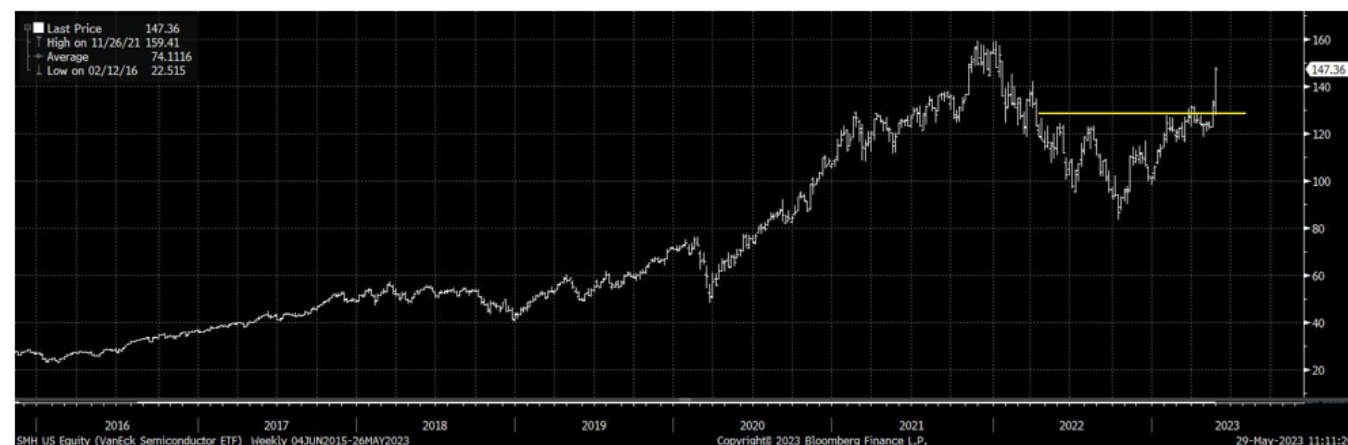
And NVIDIA is not the only semi company on the move; keep an eye on Broadcom (AVGO), Taiwan Semiconductor (TSM) and Advanced Micro Devices (AMD), to name a few.

NVIDIA (NVDA): A Dramatic Breakout to the Upside Showing AI Leadership



Source: Bloomberg May 26, 2023

VanEck Semiconductor ETF (SMH) Breakout Advancing: Expect Test of Highs and Maybe a New High



Source: Bloomberg May 26, 2023

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Invesco QQQ (QQQ): 17-Year Breakout Followed by Several Consolidations – Expect Test of the Highs

The Invesco QQQ ETF tracks the Nasdaq 100 index which is technology heavy with MFST at 13%, AAPL 12%, GOOGL 8%, AMZN ~7%, and NVDA ~ 7% -- that's nearly 50% of the index with just those 5 stocks. These are the Nifty 5 Tech Stocks. So QQQ is an extremely concentrated index. But following the 2000 Tech Bubble peak, the index fell into a 17-year trading range; then in 2017, it broke out of the secular bear range, moving the index into a new secular bull market. The Nasdaq 100 is the Digital Era index. But having such a concentrated index historically has shown to eventually contract again. Yet with market analysts so focused on this, it may take longer to happen than most think.

Invesco QQQ ETF (QQQ)



Source: Bloomberg May 26, 2023

What's Feeding Equities?

There are several factors that have led to the creation of a huge amount of liquidity finding its way into the capital markets, particularly stocks. These factors include: (A) the extraordinary amount of monetary stimulus created by the Fed printing money (with the peak at \$9 Trillion on its balance sheet) combined with interest rates going to zero, (B) the recent fiscal spending of \$3 Trillion dollars on legislation, such as the Infrastructure Investment and Jobs Act (IIJA), the CHIPS and Science Act and the Inflation Reduction Act – NOT to mention the Ukraine war commitment of \$1.3 Trillion; and (C) the recent bailout of three regional banks.

Despite the Fed moving interest rates from zero to just above 5% and contracting the money supply to negative growth, there has not yet been a negative impact on stock price behavior. But not all stocks are participating in this rally.

Market Breadth Continues to Decline

While technology stocks continue to surge higher, the market breadth (advances minus declines) continues to shrink, indicating that many of the other stocks in the market are not participating in this market rally. The Invesco S&P 500 Equal Weight ETF (RSP) shows this clearly with the index falling and not breaking out as Technology and FANG+ stocks surge higher. The market breadth indicator is not timely in predicting stock behavior. This indicator can peak up-to-one year before the market peaks (the peak for this cycle comes after the October 2022 low which is February 2023), but it does suggest that we could be in the later stages of this bull run. Our view is that the market can rally into the summer months as positioning in the market remains very bearish – a contrarian sign. Index highs can be tested and marginal new highs also reached.

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Bloomberg NYSE Cumulative Advance-Decline Line



Source: Bloomberg May 26, 2023

Invesco Equal-Weight S&P 500 ETF (RSP)



Source: Bloomberg, May 19, 2023

No Holiday for Inflation

This is the week that jobs data will matter... again. As always.

On Friday, we'll get the latest data on the U.S. employment and hourly wages. Looking at all these numbers together will help paint a picture about inflation – something that will surely influence the Fed's thinking as they consider their next move – another hike or a continued pause, but definitely not a cut which the markets are still hoping against hope will happen by year-end.

With Memorial Day behind us, summer has unofficially started, and we may need our sunscreen as AI fuels a blazing hot Tech stock market, driving select stocks and the indices higher.



Calendar

Mon.

Memorial Day, All markets closed

Tue.

9:00 am S&P Case-Shiller home price index (20 cities)
 10:00 am Consumer confidence
 1:00 pm Richmond Fed President Barkin speaks
 Earnings: Ambarella, Box, Canopy Growth, Hewlett Packard Enterprise, HP, Sportsman's Warehouse

Wed.

8:15 am ADP employment
 9:45am Chicago Business Barometer
 10:00 am Job openings
 12:30 pm Philadelphia Fed President Patrick Harker speaks
 2:00 pm Federal Reserve Beige Book
 Earnings: Advance Auto Parts, C3.ai, Capri Holdings, Chewy, Conn's, CrowdStrike, Donaldson,

Thu.

8:30 am Initial jobless claims, U.S. productivity
 10:00 am ISM manufacturing, Construction spending
 1:00 pm Philadelphia Fed President Patrick Harker speaks
 Earnings: Broadcom, Caleres, Calavo Growers, ChargePoint, Cooper, Dell Technologies, Designer Brands, Dollar General, Five Below, Hormel Foods, Lululemon Athletica, Macy's, MongoDB, SentinelOne, VMware, Zscaler, Zumiez

Fri.

8:30 am U.S. employment report

Source: MarketWatch/Kiplinger

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