



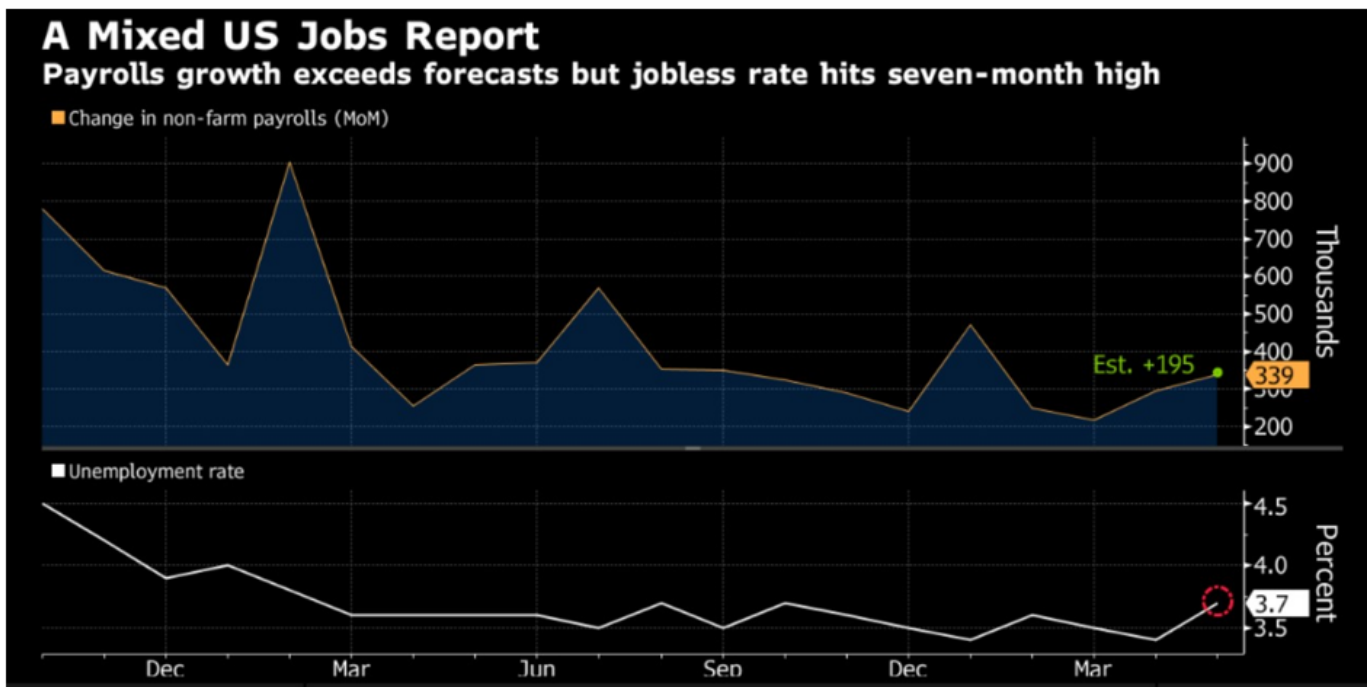
Week of
 **June 5, 2023**

Debt Ceiling Resolved and Jobs Report Mixed. The Bull Is Ready to Run.

The hand-wringing over the debt ceiling has been resolved (sigh of relief), so with that market distraction sidelined, let's talk about J-O-B-S.

Last Friday, the May Jobs report came out with a surge in both nonfarm and private payrolls, but the unemployment rate rose sharply and was the biggest monthly gain since April of 2020 (see chart and table below). The equity markets took the data as bullish, and we now have a confirmed breakout not only in the Nasdaq 100, but the S&P 500 and Russell 2000 (small caps) have also joined the breakout club.

Meanwhile, market sentiment is mixed on what the Fed's next move on interest rates will be: some are counting on a pause and some are anticipating further rate hikes. The lack of clarity on the Fed's path may cause periods of volatility.



Source: Bloomberg and U.S. Labor Department, June 2, 2023

Week of

 **June 5, 2023**

May Jobs Data

Metric	Actual	Median Estimate
Nonfarm payrolls	+339k	+195k
Unemployment rate	3.7%	3.5%
Average hourly earnings (MoM)	+0.3%	+0.3%

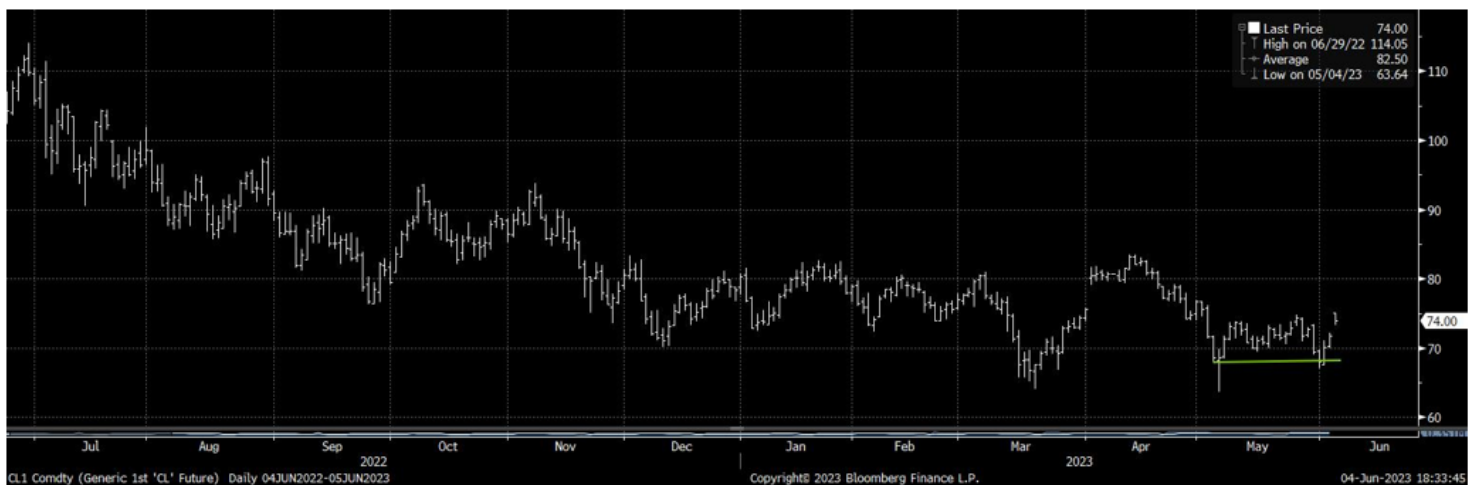
Source: Bloomberg and U.S. Labor Department, June 2, 2023

Saudi Arabia Announces Oil Cut at OPEC+ Meeting over the Weekend

Over the weekend at the OPEC+ meeting, Saudi Arabia announced it will cut an additional 1 million barrel-a-day of oil starting in July just in time for the seasonal demand pick-up for the summer driving season. Saudi Energy Minister Prince Abdulaziz bin Salman said he “will do whatever is necessary to bring stability to this market.” He also said that this could get extended. Overnight WTI crude oil rose sharply up nearly 5% on the news.

Taking a look at WTI crude oil technically, a near term bottom is in place and a rally up to the 200-day moving average should be expected at \$79 and could extend to \$83. This is a bullish development for the Energy sector.

WTI Crude Oil



Source: Bloomberg, June 4, 2023

Week of

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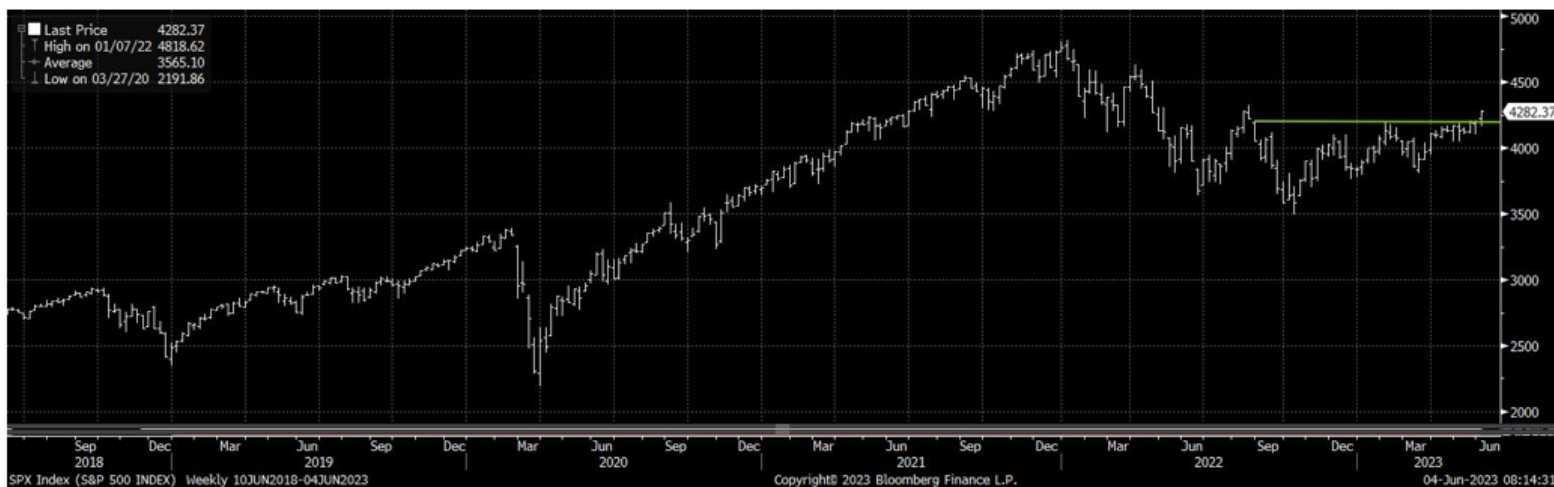
More About The Breakout Club Starring The S&P 500 and Russell 2000

S&P 500 breaks out of its trading range finally! We have been anticipating that the S&P 500 would break out of its trading range to the upside because positioning and sentiment has been so negative. Markets do not peak on pessimism – they peak on optimism. The breakout points to the S&P 500 testing its high near 4800 or a 12% rally. A marginal new high cannot be ruled out. Remember: the second quarter ends this month, and it is very possible, we get a lot of window dressing (buying the stocks that have been working) as investors have been underweight equities.

The Russell 2000 small cap index also had a trading range breakout, but as this move is not as significant, a test of the highs is not anticipated. The index, in fact, has a significant downtrend. Why? One key factor is that the Russell 2000 has a large percentage of regional banks that have been under pressure. The index's breakout does point to a test of the down trendline near 1945-1950 or a 6-7% move.

The market breadth (a measure of the difference between advancing stocks and declining stocks) did improve on the breakouts of the two indexes. An improvement in breadth will help the rally – but to support a sustainable rally in the equity market, breadth needs to improve much more significantly. Our sense is that the market can rally into the summer and likely reach a peak in August, leading to a seasonal correction in the fall months of September and October. The strongest seasonals are in November and December as markets historically rally into year-end. Equity markets are well positioned to have strong gains for 2023. The January Effect (an up January leads to an up year) and the Presidential Cycle have pointed to a mid-teens double digit return for the year.

S&P 500 Index (SPX)

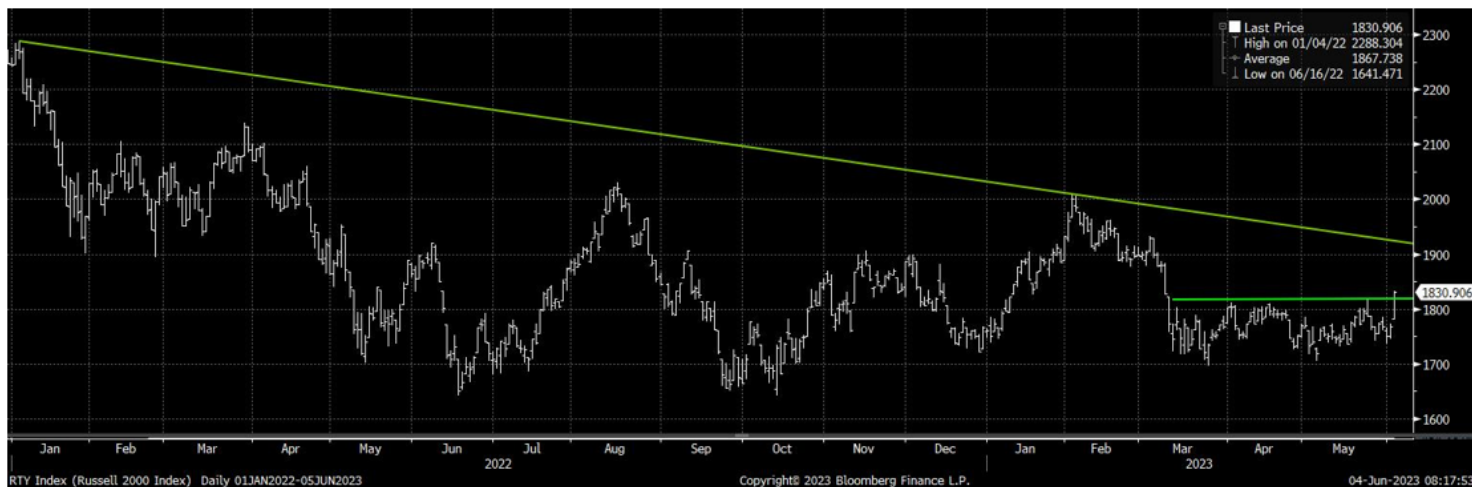


Source: Bloomberg, June 2, 2023

Week of

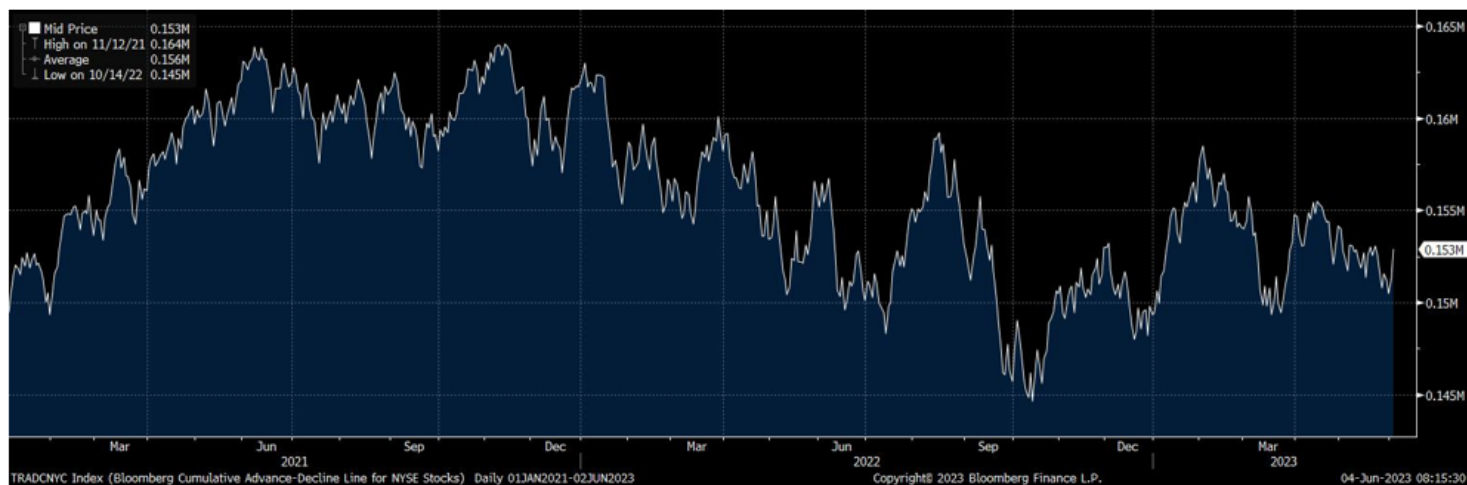
 June 5, 2023

Russell 2000 Index (RTY)



Source: Bloomberg, June 2, 2023

Bloomberg Cumulative Advanced-Decline Line for NYSE Stocks



Source: Bloomberg, June 2, 2023

Nasdaq and Semi's Take The Lead

We have been pointing out the leadership in the Nasdaq 100 with this being the first index to break out from its trading range. This is a concentrated index with FANG+ dominating the weighting with only a handful of stocks that have been driving performance. The breakout does point to a test of the highs (a 15% rally), and it can't be ruled out that new record highs can be achieved.

We have been favoring Semiconductors. The Philadelphia Semiconductor Index (SOX) broke out from a 17-year trading range (as did the Nasdaq indices). This is the leadership of the market. We have often talked about Digital being the major macro driver for the global economy. Well, the next generation of the Digital Era is here: Artificial Intelligence (AI). AI will likely be as transformative as the Personal Computer in the 1980s and 1990s along with the proliferation of the Internet and Internet of Things in the 2000s. We believe the Nasdaq is the Digital Era index, hence the leadership we are now witnessing in the markets. Note: concentration of 40% or above of any sector eventually mean-reverts or causes a major correction. But we are not there yet!

Week of



June 5, 2023

Nasdaq 100 (NDX)



Source: Bloomberg, June 2, 2023

Philadelphia Stock Exchange Semiconductor Index (SOX)

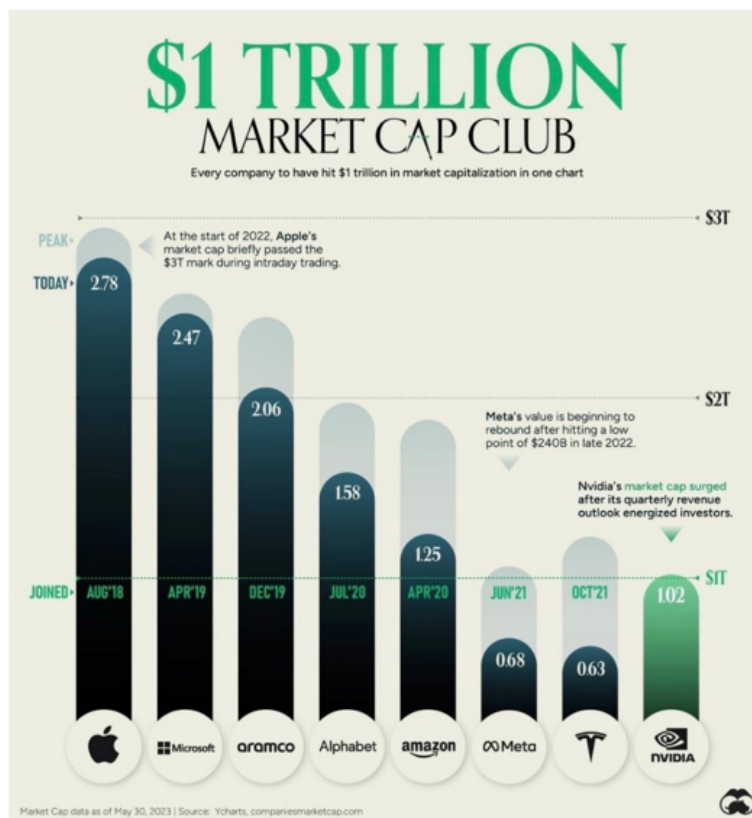


Source: Bloomberg, June 2, 2023

Week of

 **June 5, 2023**

\$1 Trillion Market Cap Club Represents the Digital Era



Source YCharts, companiesmarketcap.com May 30, 2023

OPEC+ Sits Tight On Production

Yesterday, OPEC+ (which includes its allies, like Russia) met in Vienna to negotiate possible production cuts and any changes to the baseline levels that determine each participant's output level. They decided to make no changes to its planned oil production cuts for this year, despite ongoing pressure on global oil prices from broader macro-economic concerns. But, Saudi Arabia will cut its production in July.

Looking for Love In All The Right Places

This is the week that inflation-prognosticators will be looking at ISM data.

There are a few economic reports next week, but inflation remains on everyone's radar. So, expect today's release of the ISM Services report to be this week's tea leaves. In an attempt to get greater insight into the current state of inflation, the services report, which measures business activity for the overall economy, will be dissected for indications of growth (above 50) or contraction (below 50). Just more ammunition – or distraction – as everyone gears up for next week's Fed meeting.

We're getting towards the midpoint of the year, with steady optimism continuing to build in the markets. Let us know what's on your mind. We're here to answer your questions and help you uncover the trends that will lead the way in the second half of the year.



Calendar

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9:45 am S&P U.S. services PMI
 10:00 am Factory orders, ISM Services
 Earnings: GitLab, Science Applications

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None Scheduled
 Earnings: ABM Industries, Academy Sports + Outdoors, Casey's General, Ciena, Dave & Buster's, Cracker Barrel Old Country Store, G-III Apparel, Hello Group, J.M. Smucker, Stitch Fix, Thor Industries

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8:30 am U.S. trade deficit
 3:00 pm Consumer credit
 Earnings: Brown-Forman, Campbell Soup, Lovesac, Ollie' Bargain Outlet, United Natural Foods, Verint Systems

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8:30 am Initial jobless claims
 10:00 am Wholesale inventories
 Earnings: Designer Brands, DocuSign, FuelCell Energy, Signet Jewelers, Toro, Vail Resorts

None Scheduled
 Earnings: Nio

Source: MarketWatch/Kiplinger

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