

January Corner

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**January
2024**

**The Bull Is Out Of The Gate. It Will Buck All Year.
Get A Good Grip.**

Executive Summary

The year began by digesting short-term overbought conditions in both equities and Treasuries after a sharp rally in those markets that ran for 2½ months.

We believe any corrections provide investors opportunities to re-enter those markets. Volatility, however, will likely rise during the year: that's why we've called this the Year of the Bucking Bull.

Last year ended with a powerful rally in stocks and Treasuries that lasted from October to December, resulting in a short-term overbought condition in both markets – and leading to a sell-off as 2024 opened. We believe this sell-off may now be nearing completion because the stochastic has begun to rebound. Our target for the S&P 500 this year is 5200-5400, which would be a gain of about 9%–13%.

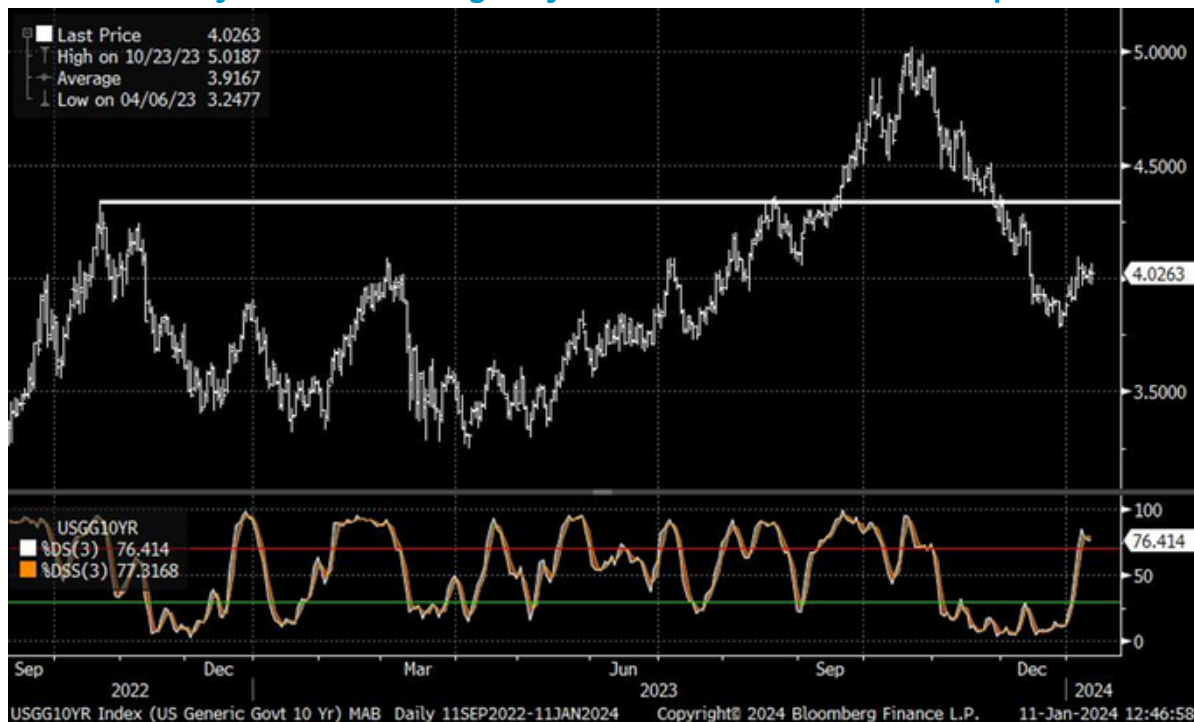
S&P 500 With Daily Stochastic With A Buy Signal



Source: Bloomberg, Sanctuary Wealth, January 11, 2024

In our opinion, 10-year Treasury yields probably peaked at 5%. Given the strong rally in bonds since mid-October, we believe yields could back up to 4.3%-4.4%. We still expect lower rates later this year.

10-Year Treasury Yields With Rising Daily Stochastic: Rates Could Back Up To 4.3%-4.4%



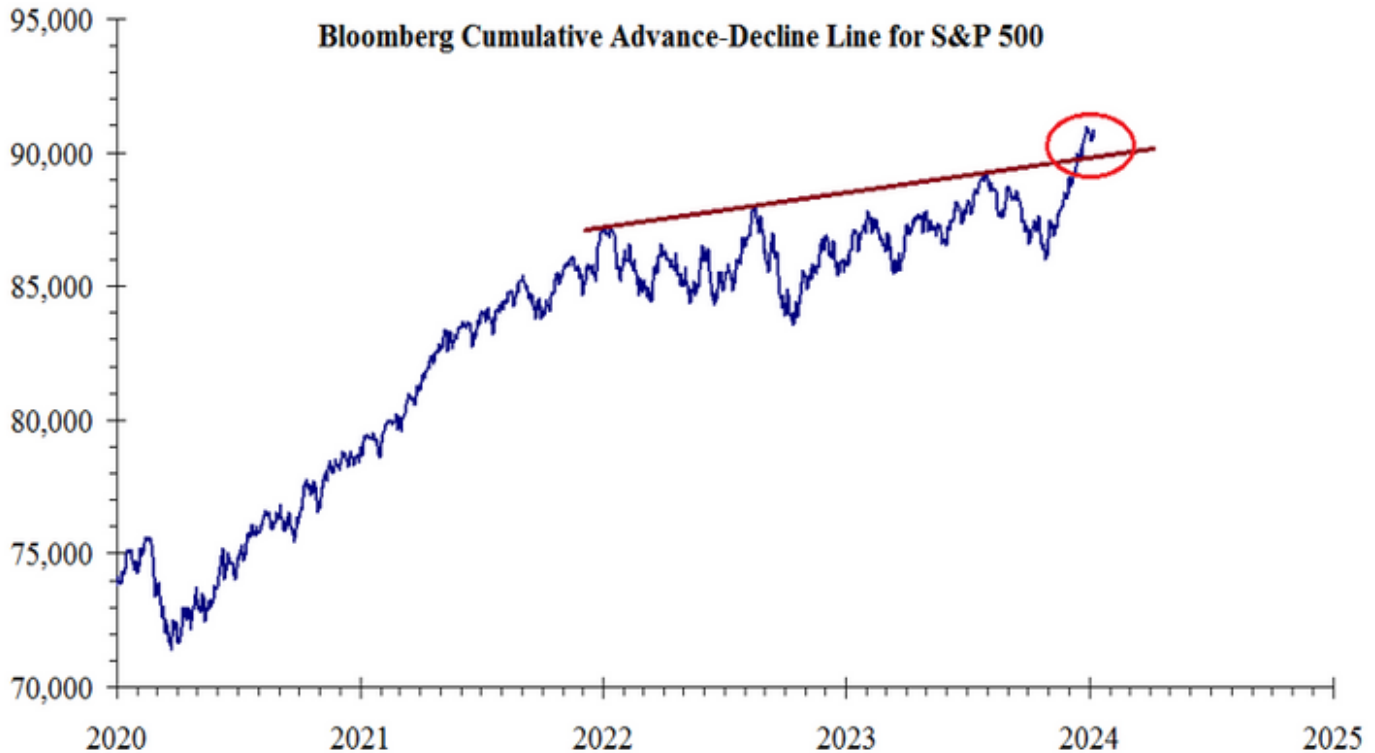
Source: Bloomberg, Sanctuary Wealth, January 11, 2024

Looking at the breadth of the S&P 500 ("market breadth" gauges the strength or weakness of moves in a major index) we see signs of a breakout, indicating that the market should continue to rally.



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Breakout In S&P 500 Breadth Confirms Rally Can Continue



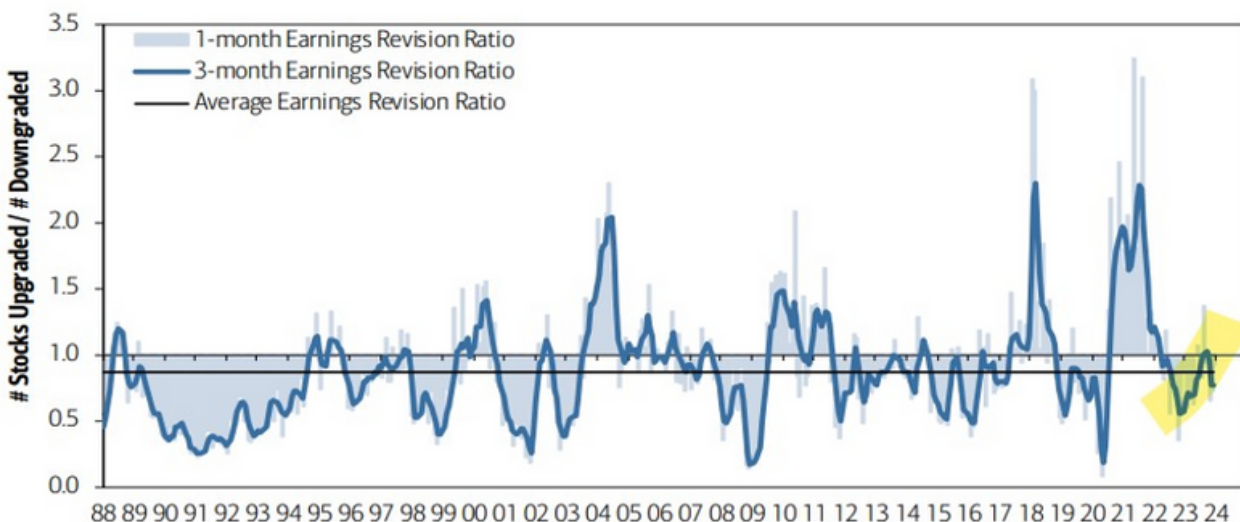
Source: Bloomberg, Sanctuary Wealth, January 9, 2024

Earnings Revisions Are Up And Above Average

The monthly earnings revision ratio for the S&P 500 is rising and is above the long-term average. Earnings revisions have the highest correlation to the direction of stocks as well as the overall market. This is a bullish fundamental for why investors should remain invested and, if they're underweight equities, this is another buying opportunity.

Earnings Revisions Are Positive – A Bullish Indicator For Stocks

Earnings revisions improved for USA last month and remains above long-term average



Source: Bank of America, January 2, 2024

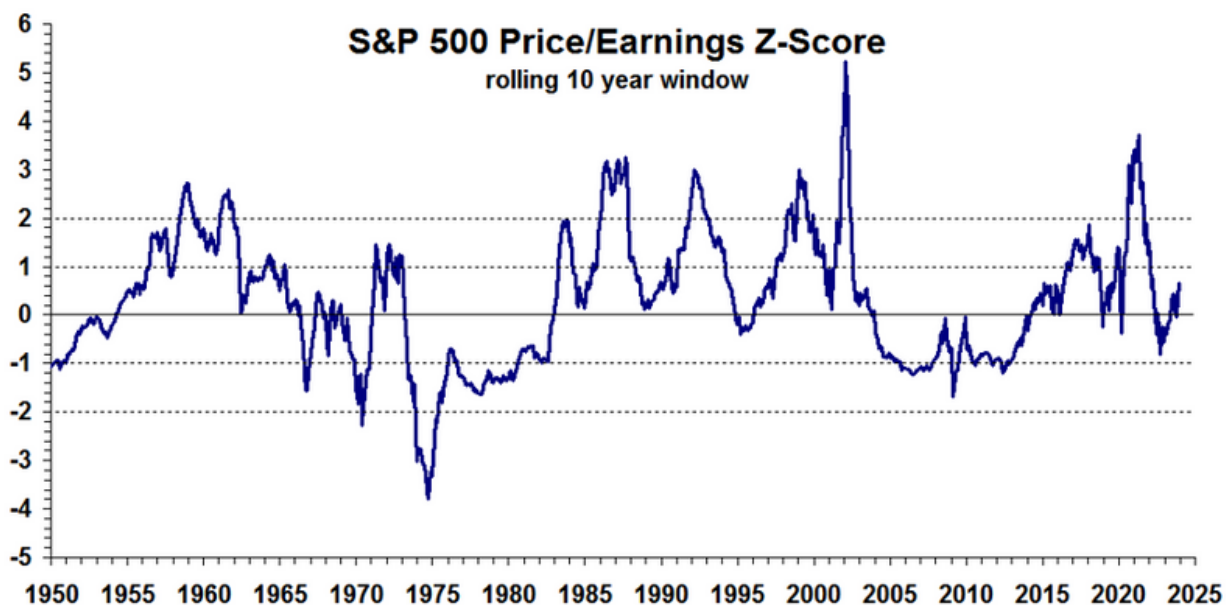


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S&P 500 Valuations Are Not Excessive

Despite the run-up in equity prices since October, valuations have not reached levels that should be a cause of concern for investors, in our view. In the accompanying chart, we look at the rolling 10-year window of the Z-Score of the Price/Earnings Ratio. A Z-Score is a statistical measurement that tells you how far away from the mean (or average) your data lies. Based on this measure, the equity market is actually cheap!

S&P 500 P/E Z-Score Does Not Reveal Excessive Valuation



Source: S&P Global, Sanctuary Wealth, January 9, 2024

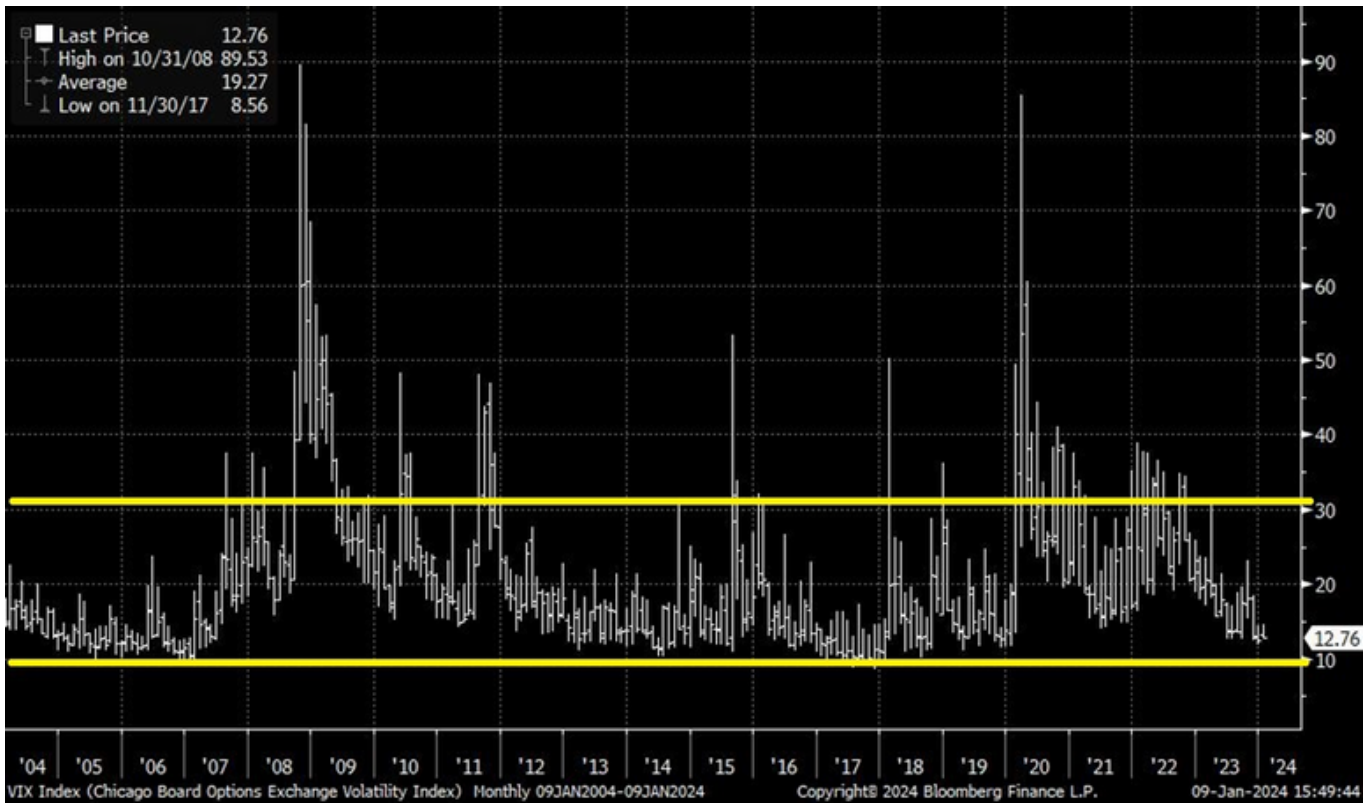
A Rise In The VIX Would Indicate Increasing Volatility

The VIX Index is a measure of price volatility within the stock market, rising alongside overall stock market volatility. It's currently near its 20-year low levels. We anticipate that the VIX could rise to 20–30, a substantial increase, but not indicative of a severe sell-off. This is what we mean by the “Bucking Bull” market of 2024: a rising market with wide swings.



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A Rise In The VIX Index Should Presage A Bucking Bull



Source: Bloomberg, Sanctuary Wealth, January 9, 2024

Lower Interest Rates Point To A Bull In Fixed Income And Stocks

We believe a traditional 60/40 mix of stocks and bonds will work in this market environment. We anticipate that the Federal Reserve will lower interest rates in 2024, and while we believe that interest rates are in a long-term secular increase, it is likely that there will be cyclical declines in rates during 2024, creating opportunities to lock in higher yields for a while. Declining interest rates and continued economic growth should boost stocks as well.

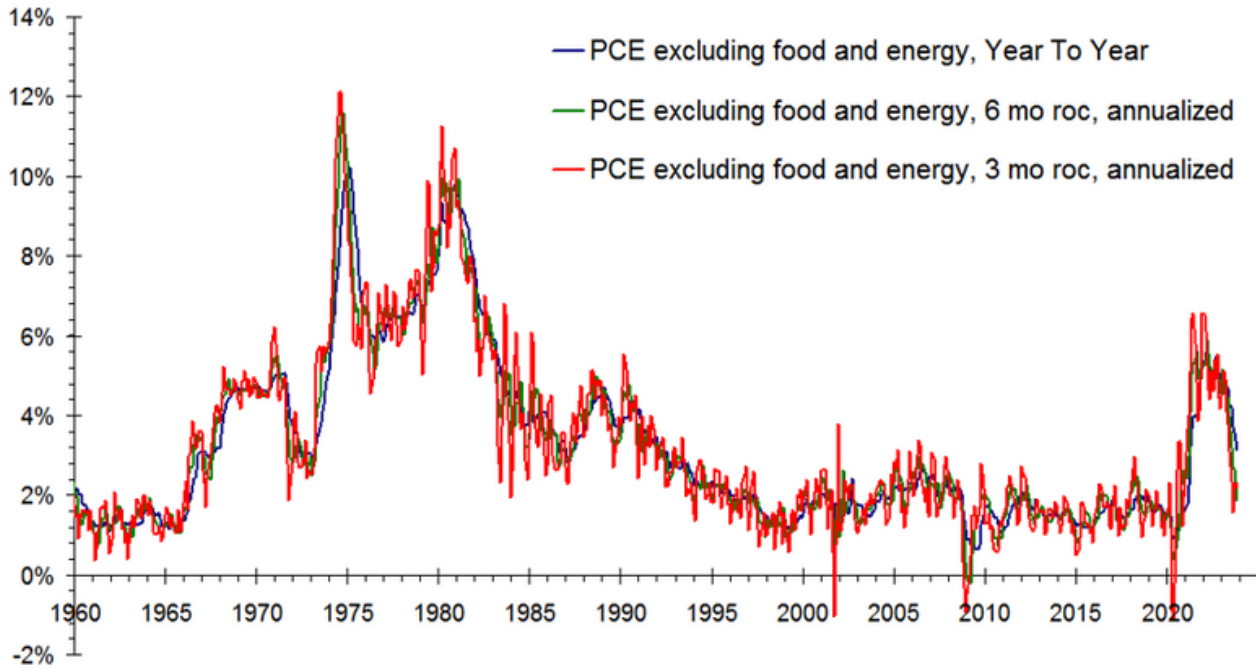
Fed Is Concerned About Core Price Declines

“Core” prices exclude food, energy, and housing costs. Year-to-year and annualized rates of change for 6- and 3-months are plunging. We think the Fed is concerned it could get “behind the curve” and return to the disinflationary environment that persisted over the past couple of decades. This concern gives the Fed extra impetus to lower rates.



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Core PCE Is Trending Down On An Annualized Basis



Source: Bureau of Economic Analysis, Sanctuary Wealth, January 11, 2024

Core Price Consumption Expenditure (PCE) Table of Returns

	Nov 2023	Oct 2023	Nov 2022
Core PCE, Year To Year	3.16%	3.39%	5.09%
Core PCE, 6 mo roc, annualized	1.87%	2.34%	4.92%
Core PCE, 3 mo roc, annualized	2.16%	2.33%	4.45%

Source: Bureau of Economic Analysis, Sanctuary Wealth January 11, 2024

Presidential Year 4 Tends To Have A Positive Return

The fourth year of the Presidential term cycle, which we are in, historically has a positive return, and the return is stronger if the month of January is up.

Presidential Year 4 S&P 500 Returns from 1928-2023

Presidential Cycle Year	Criteria	# of years	# of years with positive returns	Average annual return (%)	Chance of up year (%)	Average Feb-Dec return (%)	Chance of an up Feb-Dec
Year 1	Jan. up	14	11	13.90%	78.57%	9.85%	78.57%
	Jan. down	10	3	-3.54%	30.00%	-0.32%	30.00%
	overall	24	13	6.63%	58.33%	5.61%	58.33%
Year 2	Jan. up	14	8	9.34%	57.14%	5.67%	57.14%
Mid-term Year	Jan. down	10	5	-5.08%	50.00%	2.58%	70.00%
	overall	24	13	3.33%	54.17%	4.38%	62.50%
Year 3	Jan. up	20	17	13.66%	85.00%	8.25%	80.00%
	Jan. down	4	2	15.46%	50.00%	20.32%	100.00%
	overall	24	19	13.96%	79.17%	10.26%	83.33%
Year 4	Jan. up	11	11	16.55%	100.00%	11.96%	100.00%
Election Year	Jan. down	13	7	-0.18%	53.85%	3.20%	69.23%
	overall	24	18	7.49%	75.00%	7.22%	83.33%

Source: BofA Global Research, Bloomberg

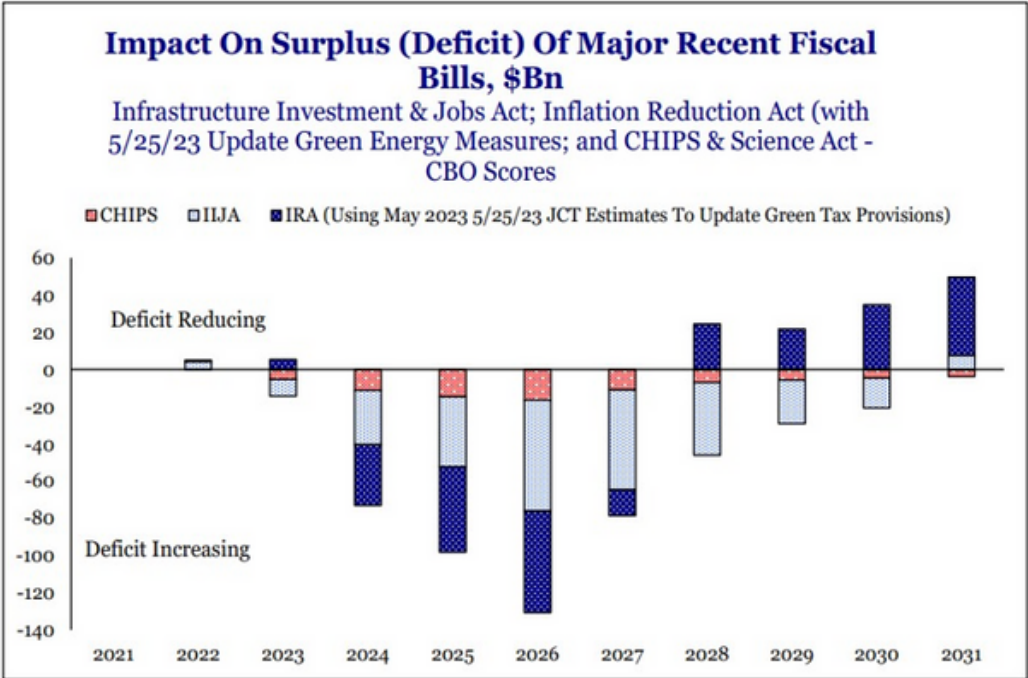
BofA GLOBAL RESEARCH

Source: Bank of America, January 4, 2024

Biden Administration Fiscal Policy Provides Liquidity To The Equity Market

Government deficit spending usually produces excess liquidity in an economy, particularly when it's not in a recession. Current fiscal policy has resulted in a considerable deficit of \$510 billion since the beginning of the fiscal year in October 2023, which we expect should provide excess liquidity that can be invested in the equity market. This is the first time in current U.S. history that the government has over-stimulated the economy in the absence of a recession.

THE THREE PILLARS OF BIDEN’S FISCAL POLICY: INFRA, CLEAN ENERGY & CHIPS ARE A 2024-2026 STORY



Source: Strategas, September 2023



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Market Leadership Continues Strong and Steady

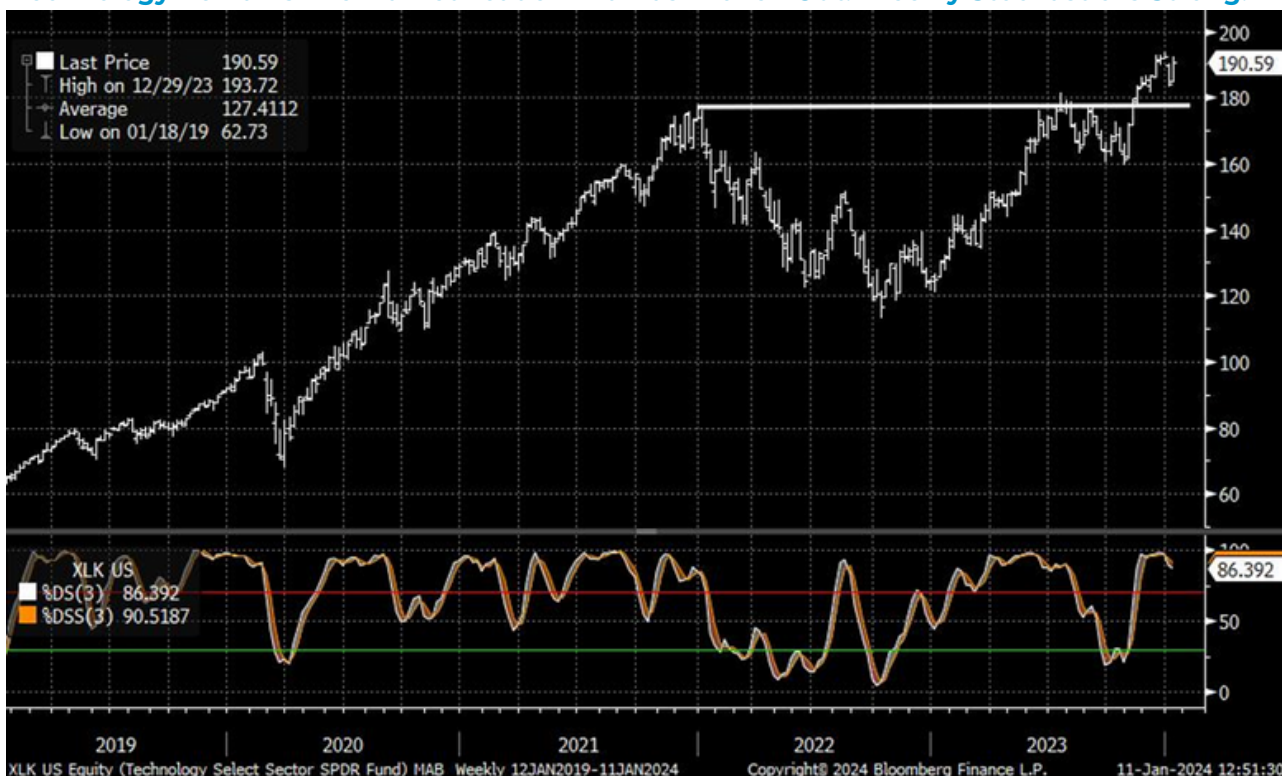
Leadership in this market is centered in Technology, driven by the Magnificent 7 [Apple (AAPL), Alphabet (GOOGL), Microsoft (MSFT), Amazon.com (AMZN), Meta Platforms (META), Tesla (TSLA) and Nvidia (NVDA)]. As long as Tech leadership remains in place, we believe the secular bull market remains intact.

The Magnificent 7 Have Broken Out To New Highs. The Weekly Stochastic Is Strong.



Source: Bloomberg, Sanctuary Wealth, January 11, 2023

Technology Remains The Market Leader And Has Broken Out. Weekly Stochastic Is Strong.



Source: Bloomberg, Sanctuary Wealth, January 11, 2024

Semiconductors Remain The Market Leaders With New Record Highs

Nvidia (NVDA, \$531.40, NASD) recently broke out to new all-time highs. NVDA's success is due in large part to its importance to expanding computing needs for artificial intelligence (AI). We believe Semiconductors are poised to do much better, not only because of AI and other emerging technologies, but also because of re-shoring of manufacturing away from Asia and back into the U.S. and Mexico – not to mention the Biden Administration's fiscal stimulus targeting technology! It is the Re-Industrialization of the U.S. economy.

The VanEck Semiconductor ETF (SMH) Major 3-Year Base Breakout With Strong Stochastic



Source: Bloomberg, Sanctuary Wealth, January 11, 2024

We Favor Cyclical Over Defensives

Cyclicals are generally breaking out. We think this is not a defensive move, but rather a bullish positioning by market participants.

Industrials benefit from deficit spending when government policy directs spending toward property, plant and equipment (PP&E). On-shoring and re-shoring of production that was previously sent to other countries should help this sector. Defense spending is also increasing, supporting defense companies. The S&P 500 Industrial sector recently hit record all-time highs.



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Industrials: An Attractive Sector In Our View. The Weekly Stochastic Is Strong



Source: Bloomberg, Sanctuary Wealth, January 11, 2024

Real Estate Should Continue To Advance In A Softer Interest Rate Environment

Real Estate SPDR ETF (XLRE) With Strong Weekly Stochastic



Source: Bloomberg, Sanctuary Wealth, January 11, 2024

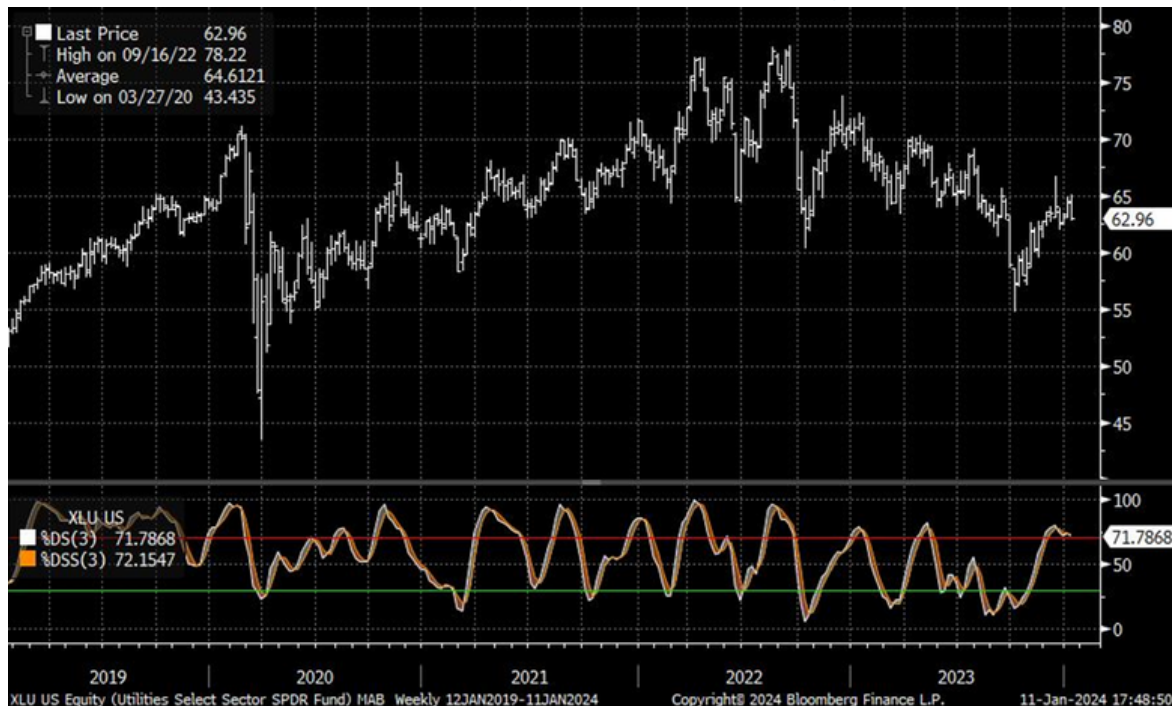


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Utilities Should Also Benefit From Lower Interest Rates

We would accumulate Utilities on any backup in prices in this sector.

Utilities SPDR ETF (XLU) With Weekly Stochastic: Weakening Price Momentum



Source: Bloomberg, Sanctuary Wealth, January 11, 2024

Market Performance

	Last 1/9/2024	Month End 12/29/2023	Month to Date	Quarter End 12/29/2023	Quarter to Date	Year End 12/29/2023	Year to Date	Year Ago 1/9/2023	Year To Year
S&P 500	4756.50	4769.83	-0.3%	4769.83	-0.3%	4769.83	-0.3%	3892.09	22.2%
NASDAQ Composite	14857.71	15011.35	-1.0%	15011.35	-1.0%	15011.35	-1.0%	10635.65	39.7%
NASDAQ 100	405.75	409.52	-0.9%	409.52	-0.9%	409.52	-0.9%	270.54	50.0%
Russell 2000	1968.04	2027.07	-2.9%	2027.07	-2.9%	2027.07	-2.9%	1795.91	9.6%
S&P Consumer Discretionary Sector	1391.47	1418.09	-1.9%	1418.09	-1.9%	1418.09	-1.9%	1033.93	34.6%
S&P Consumer Staples Sector	769.84	762.32	1.0%	762.32	1.0%	762.32	1.0%	784.59	-1.9%
S&P Energy Sector	629.29	640.05	-1.7%	640.05	-1.7%	640.05	-1.7%	669.19	-6.0%
S&P Financial Sector	627.82	626.35	0.2%	626.35	0.2%	626.35	0.2%	586.18	7.1%
S&P Health Care Sector	1637.63	1590.37	3.0%	1590.37	3.0%	1590.37	3.0%	1556.25	5.2%
S&P Industrials Sector	947.20	964.73	-1.8%	964.73	-1.8%	964.73	-1.8%	850.41	11.4%
S&P Information Technology Sector	3357.51	3397.16	-1.2%	3397.16	-1.2%	3397.16	-1.2%	2200.61	52.6%
S&P Materials Sector	528.28	539.62	-2.1%	539.62	-2.1%	539.62	-2.1%	509.49	3.7%
S&P Real Estate Sector	248.49	251.58	-1.2%	251.58	-1.2%	251.58	-1.2%	238.01	4.4%
S&P Communications Sector	247.71	246.00	0.7%	246.00	0.7%	246.00	0.7%	165.27	49.9%
S&P Utilities Sector	327.71	321.92	1.8%	321.92	1.8%	321.92	1.8%	363.30	-9.8%
S&P 500 Total Return	10172.75	10327.83	-1.5%	10327.83	-1.5%	10327.83	-1.5%	8293.80	22.7%
3 month Treasury Bill Price	98.66	98.66	0.0%	98.66	0.0%	98.66	0.0%	98.85	-0.2%
3 month Treasury Bill Total Return	244.19	243.98	0.1%	243.98	0.1%	243.98	0.1%	232.21	5.2%
10 Year Treasury Bond Future	111.91	112.89	-0.9%	112.89	-0.9%	112.89	-0.9%	114.63	-2.4%
10 Year Treasury Note Total Return	291.37	294.12	-0.9%	294.12	-0.9%	294.12	-0.9%	289.51	0.6%
iShares 20+ Year Treasury Bond ETF	96.62	98.88	-2.3%	98.88	-2.3%	98.88	-2.3%	105.74	-8.6%
S&P Municipal Bond Total Return	272.90	272.94	0.0%	272.94	0.0%	272.94	0.0%	261.19	4.5%
iShares S&P National Municipal Bond NAV	108.41	108.42	0.0%	108.42	0.0%	108.42	0.0%	106.69	1.6%
S&P 500 Investment Grade Corporate Bond Total Return	451.47	455.89	-1.0%	455.89	-1.0%	455.89	-1.0%	431.72	4.6%
S&P Investment Grade Corporate Bond	90.87	91.76	-1.0%	91.76	-1.0%	91.76	-1.0%	90.15	0.8%
S&P Investment Grade Corporate Bond Total Return	478.47	482.66	-0.9%	482.66	-0.9%	482.66	-0.9%	455.45	5.1%
SPDR Bloomberg High Yield Bond ETF	94.54	94.73	-0.2%	94.73	-0.2%	94.73	-0.2%	92.84	1.8%
iShares iBoxx High Yield Corporate Bond ETF	77.23	77.39	-0.2%	77.39	-0.2%	77.39	-0.2%	75.80	1.9%
Gold	2030.20	2062.98	-1.6%	2062.98	-1.6%	2062.98	-1.6%	1871.81	8.5%
Bitcoin	45427.01	41935.34	8.3%	41935.34	8.3%	41935.34	8.3%	17181.34	164.4%

Source: Bloomberg, Sanctuary Wealth, January 9, 2024



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Positioning

As we begin 2024, we confirm our perspective for positioning your portfolios:

- We prefer Growth over Value. When earnings are scarcer, growth stocks tend to outperform value stocks.
- We prefer Cyclical over Defensives. When the Bull is running, cyclical stocks tend to outperform defensive stocks.
- We prefer Discretionary over Staples. When consumers are not concerned about their incomes (usually when the economy is expanding rather than contracting), discretionary spending stocks tend to outperform consumer staples.
- We expect the U.S. dollar to generally weaken as the year progresses.

Two risks we can currently see to our outlook for 2024 would be:

- (1) There are no or fewer than expected Federal Reserve cuts in interest rates during the year, and
- (2) Oil prices cross \$100 per barrel and stay there.



Last Words

It's perhaps easy to be optimistic as 2024 begins to unfold. As stated above, there are numerous positive signals and buying opportunities still.

Meanwhile, it's impossible to forget that 2024 is a Presidential Election Year, and when the incumbent runs, history has shown that positive equity returns are the usual result. But it's also important to be realistic and understand the weight and risk of negatives, such as war in the Middle East and Ukraine, the highest U.S. deficit in history with high costs of funding our country's debt, and the highest interest rates in 16 years with inflation impacting spending.

However, we continue to believe that these factors will not negatively impact asset classes this year. And though we will watch these factors closely, we will also focus our attention on the opportunities created by the ongoing shift to a Digital Economy, with Artificial Intelligence as the new driver of productivity. And since this evolution is being led primarily by American companies, it will bode well for U.S. markets.

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