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October 2026

Higher Inflation, Higher Interest Rates, But Still A Resilient Market

Oil And Interest Rates Driving Investment Sentiment

Oil prices and interest rates continue to dominate the financial news headlines. President Trump paused military strikes against Iran ahead of the November mid-term elections, while weighing whether the U.S. should join Saudi Arabia's military operations against Iranian-backed Houthi rebels in Yemen. Tensions escalated after a Houthi missile strike on King Khalid International Airport in Riyadh — the deadliest attack in a Gulf Arab country in more than a decade — prompted Trump to call the situation "not acceptable" and signal possible U.S. military intervention alongside Saudi Arabia. The airport was struck again following his comments. The continuing conflict in the Middle East is keeping energy prices elevated, adding to inflation concerns and negative consumer sentiment.

Interest rates have risen sharply as higher energy prices have renewed inflation concerns, AI companies have added significant new debt supply to the market, and investors have grown increasingly worried about financing the U.S. deficit as federal debt has reached $40 trillion, or roughly 121% of GDP.

This month, we'll look at how higher oil prices are affecting inflation and what persistent inflation means for stocks and bonds, updating the analysis we presented in May. We'll also review performance across the stock market's sectors.

Oil Supply And Demand Remain Out Of Balance

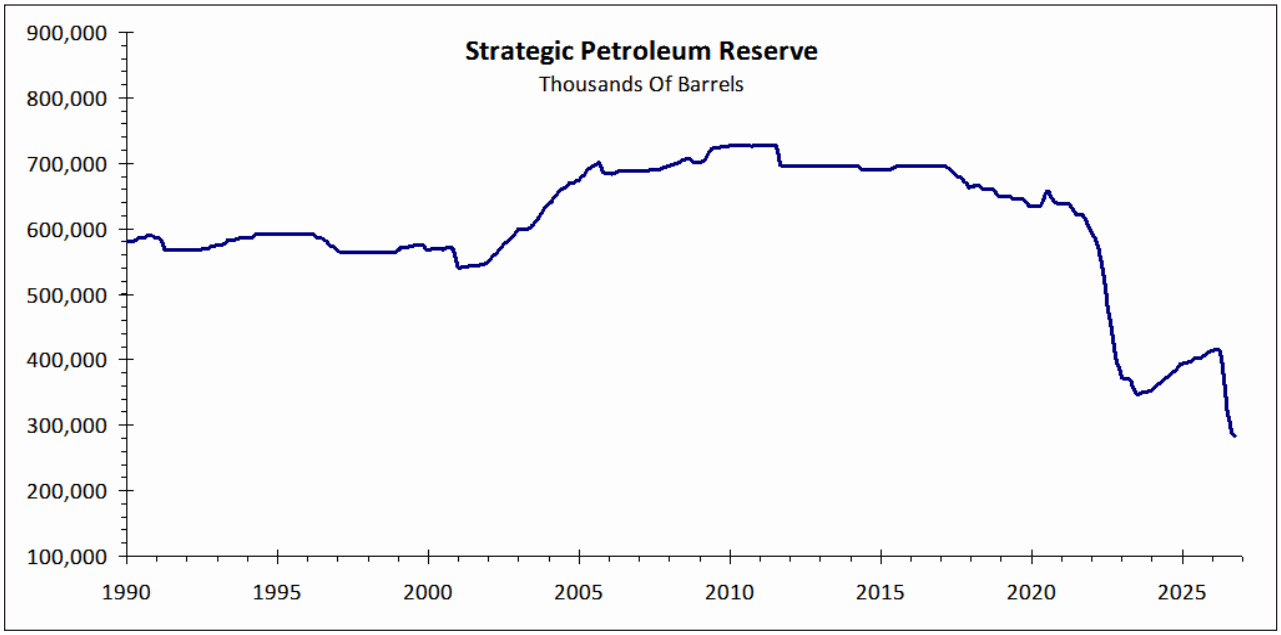
In June, the International Energy Agency (IEA) revised its 2026 supply/demand balance to a 1.8 mb/d (million barrels/day) deficit, with demand at 104.0 mb/d and supply at 102.2 mb/d. The Energy Information Administration (EIA), part of the U.S. Department of Energy, implied a 2.6 mb/d deficit, while Bloomberg estimated a 2.03 mb/d deficit for full-year 2026. As of late August, U.S. commercial crude and Strategic Petroleum Reserve (SPR) inventory draws had slowed to 3.6 million barrels per week, down sharply from a peak weekly draw of 15.2 million barrels during the height of the Strait of Hormuz closure. This persistent imbalance between energy supply and demand is likely to continue putting upward pressure on energy prices.

Helping to keep oil prices from spiking even higher is the fact that the U.S. is now the world's largest energy producer and continues to increase production.

Mike Rothman at Cornerstone Analytics, a seasoned and highly respected energy strategist, has cited global inventory drawdowns on the order of 1 billion barrels and noted divergences between paper markets and physical tightness. In other words, it is easier to trade oil for future delivery than to obtain the physical product today. The current cost to ship oil is approximately $30–$40 above futures prices. In an appearance on CNBC on October 8, Rothman said the oil market is still "only in the middle innings" of a bull market.

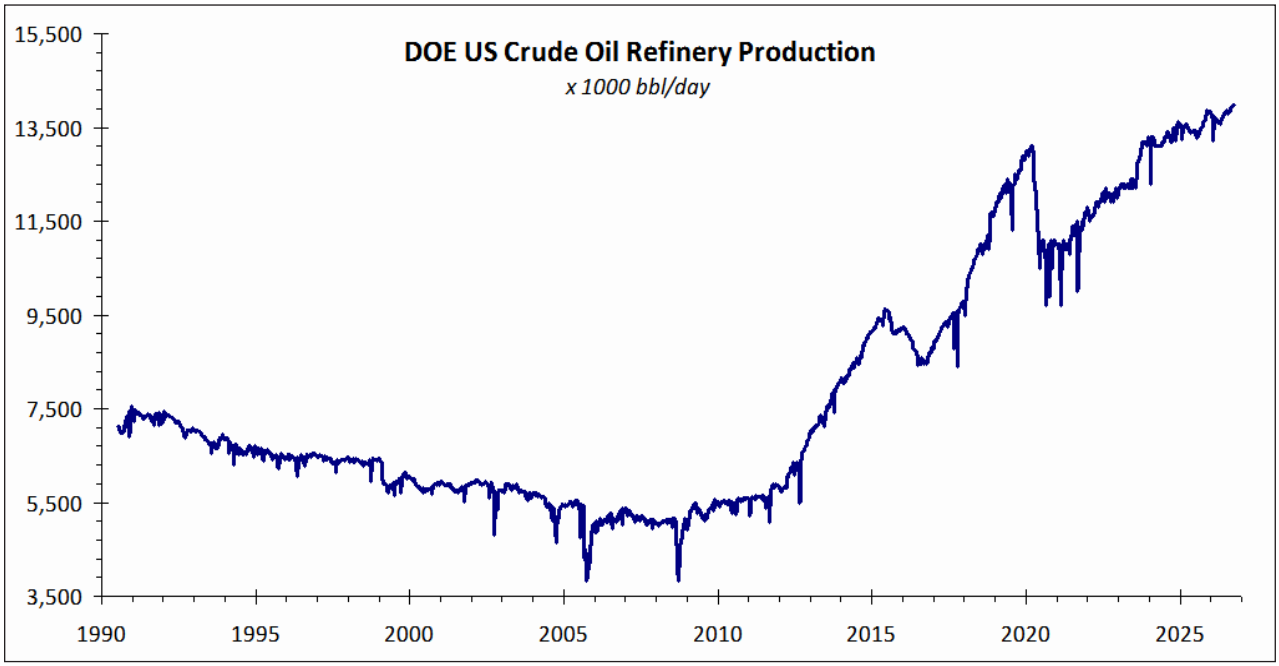
We remain bullish on the Energy sector and believe it is in the early stages of a new secular bull market. Energy represents almost 4% of the S&P 500 today, a weight that could grow significantly over the next five to ten years.

The Strategic Petroleum Reserve (SPR) Continues To Decline



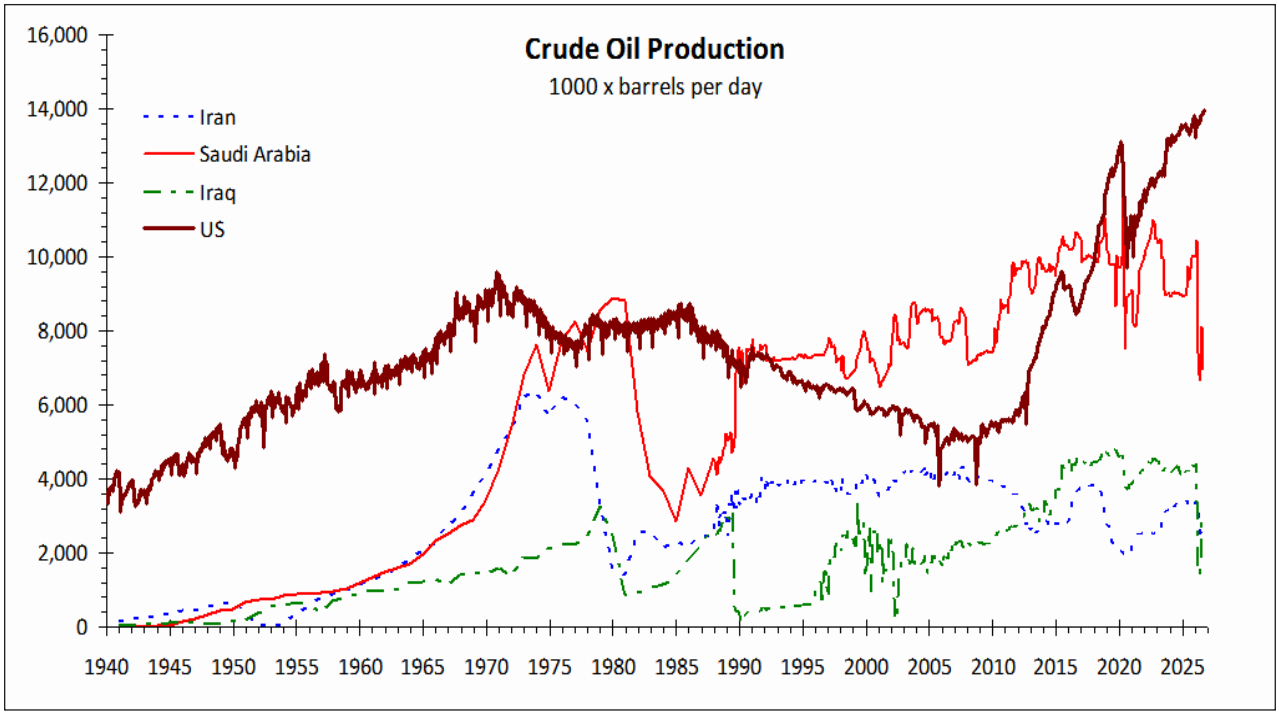
Source: Energy Information Administration (EIA), Sanctuary Wealth, October 8, 2026

U.S. Crude Oil Refinery Production Is At Record Levels



Source: Energy Information Administration (EIA), Sanctuary Wealth, October 8, 2026

US Is Now The Largest Energy Producer In The World



Source: OPEC, Department of Energy, Sanctuary Wealth, October 7, 2026

WTI Oil Price Range This Year: $70-$110

Source: Bloomberg, Annotations by Sanctuary Wealth, October 15, 2026

Treasury Yields Reach Decades-Long Highs

Treasury yields have risen to levels not seen for decades, driven by a combination of factors including a strong economy, concerns about rising inflation, hawkish Federal Open Market Committee (FOMC) minutes, worries about fiscal discipline, and increased financing needs associated with the data center buildout. The 10-year Treasury yield is at levels comparable to those seen in 2007 and 2002, while the 2-year Treasury yield, which is closely tied to fed funds expectations, is approaching levels last seen in 2024.

There are some signs that the rise in yields may be nearing a cyclical peak. The recent 10- and 30-year Treasury auctions were well-received, while sentiment toward Treasury bonds has become extremely bearish. From a contrarian perspective, this suggests bond prices may be approaching a bottom, which would mean yields could begin to move lower.

If interest rates are near a cyclical peak, we believe that could provide a tailwind for stocks, particularly as equities enter a seasonally strong period.

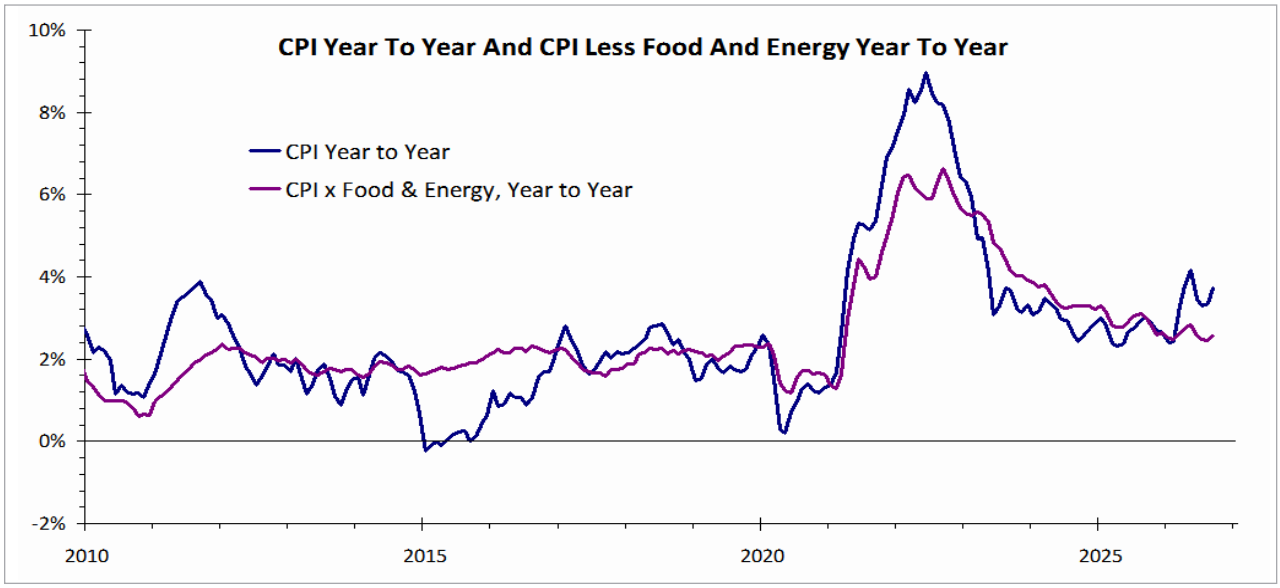
10-Year Treasury Yields Near Levels Last Seen In 2007 And 2002

Source: Bloomberg, Annotations by Sanctuary Wealth, October 15, 2026

Oil Prices Are Putting Pressure On Inflation

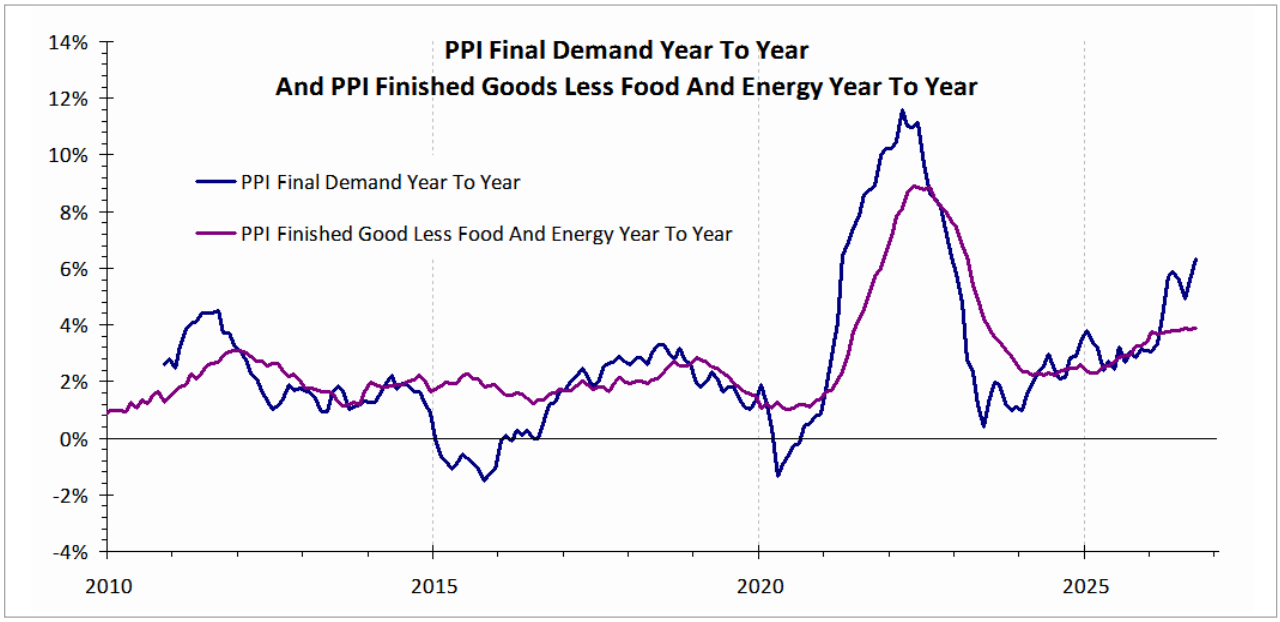
According to the Bureau of Labor Statistics (BLS), oil-related energy prices (gasoline, diesel, etc.) were the dominant driver of the September monthly gains in both the Consumer Price Index (CPI) and the Producer Price Index (PPI). In CPI, oil prices accounted for more than half the headline increase; for PPI, BLS said that over 80% of the increase was attributable to higher oil — which is quite high.

Energy Costs Continue To Push CPI Higher at 3.7%



Source: Bureau of Labor Statistics, Sanctuary Wealth, October 14, 2026

PPI Is Also Rising Because Of Energy Prices at 6.7%



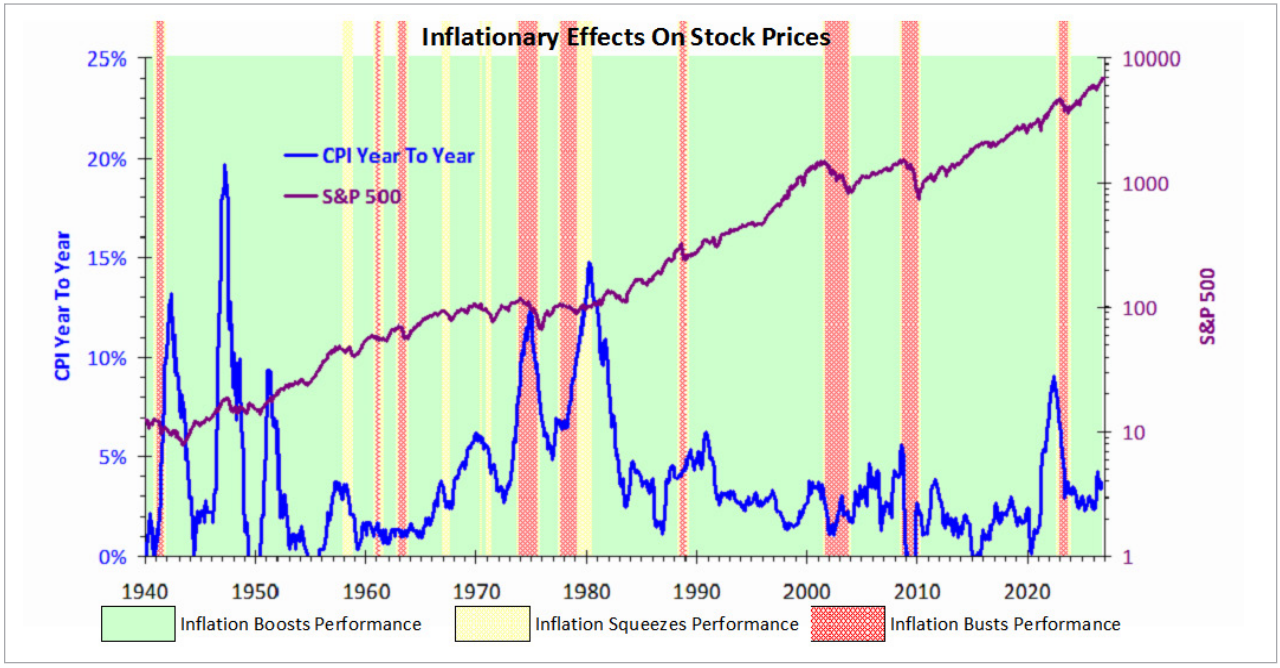
Source: Bureau of Labor Statistics, Sanctuary Wealth, October15, 2026

AAA Diesel (Blue) and Gasoline (Yellow) Average Prices

Source: American Automobile Association (AAA), October 15, 2026

The Three-Stage Pattern Of Inflation And Stocks

History shows that inflation affects stocks in three distinct phases that we have identified as: Inflation Boost, Inflation Squeeze, and Inflation Bust. Using total return data and Gold as stable measures of real value, we can see a repeating cycle that has held for decades.



Source: Department of Labor, Standard & Poor's, Sanctuary Wealth, October 14, 2026

Inflation Boost: Moderate Inflation Boosts Equity Returns

When inflation runs at moderate levels, usually between 2% and 5%, companies can often raise prices to match or exceed rising costs. This supports stronger revenue and nominal earnings growth. Stock prices tend to climb along with the higher earnings. *The Inflation Boost cycle is the good part or positive part of the inflation cycle*.

Historically, stocks performed well during the 1940s through the mid-1960s and again during the long disinflationary period beginning in the 1980s, delivering strong nominal returns and outperforming Gold. We believe today's environment shares important similarities with those periods.

Inflation Squeeze: Rising Pressure on Returns

As inflation begins to rise, the picture changes. Input costs can increase faster than many companies are able to pass them through, putting pressure on revenues and earnings. Interest rates also tend to move higher, slowing economic growth and compressing price-to-earnings multiples, which can weigh on stock prices. Nominal returns may still appear respectable (thanks to stocks!), but real purchasing power, as measured against Gold, a stable store of value, begins to erode.

Even when headline returns look solid, equities often weaken relative to Gold, allowing the metal to outperform. This Squeeze phase appeared in the late 1960s, parts of the 2000s, and again in 2020-2021 and 2025.

Inflation Bust: High Inflation Delivers Real Damage To Returns

At high inflation rates above 7%, stocks usually suffer clear destruction in real terms. Rising costs can erode corporate margins, slowing revenue growth and reducing earnings. Higher inflation also tends to pressure valuations and weigh on stock prices. Even if nominal gains are high, they often fail to keep pace with the erosion of purchasing power.

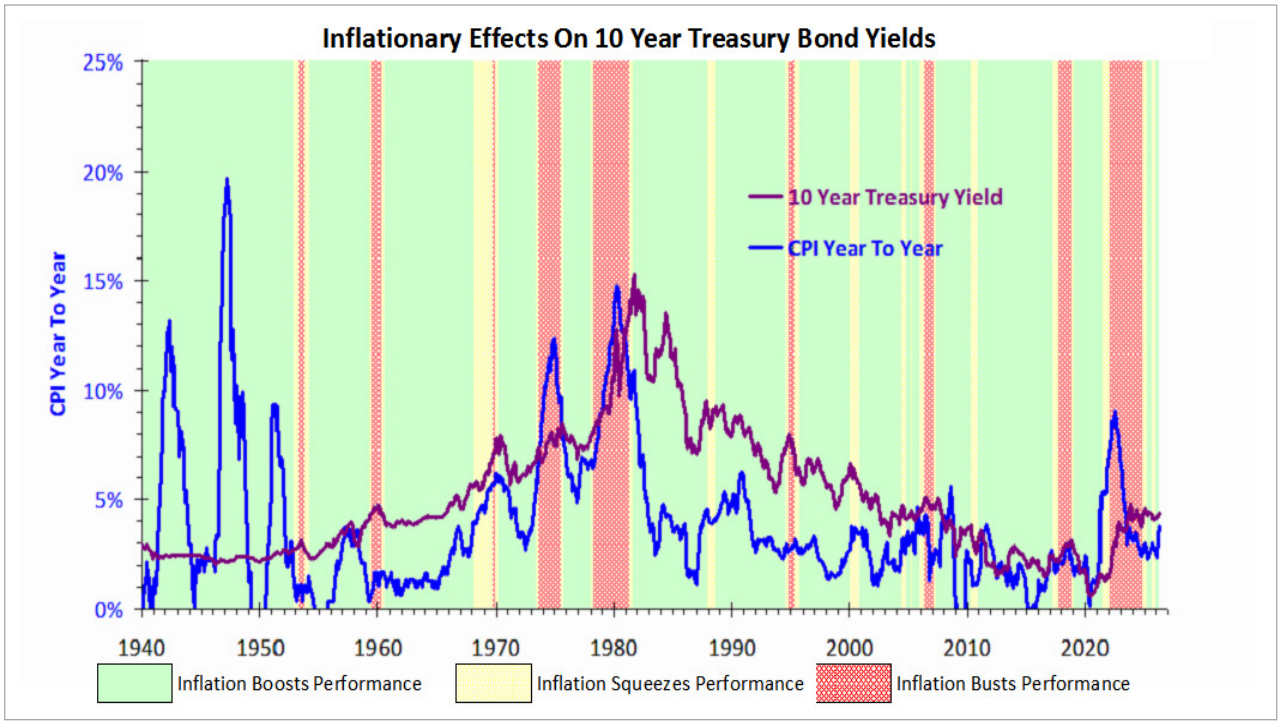
The late 1970s and 2022 stand out as painful examples of when portfolios lost heavily relative to Gold. Bonds and cash fared even worse. *This is the period when Real Assets hold up well in pricing relative to inflation*.

CPI Still Points To Nominal Boost For Stocks

The Consumer Price Index (CPI) for September rose 3.7% year-over-year, within the moderate range historically but higher than Federal Reserve (Fed) officials claim to prefer. Stocks have continued to deliver positive nominal total returns so far in 2026, with the S&P 500 up roughly 14% year-to-date as earnings have expanded sharply. FactSet expects earnings to rise 29.6% year-over-year and currently estimates full-year 2026 earnings growth of 32.7%. As long as inflation stays contained, the data suggests companies can continue to generate revenue and earnings growth that support higher equity prices.

Inflation And Bonds: A Clear Three-Stage Pattern

Bonds (measured by 10-year Treasury yields) show an even more consistent pattern across inflation cycles than stocks.



Source: Department of Labor, Bloomberg, Sanctuary Wealth, October 14, 2026

Why Moderate Inflation Usually Hurts Bonds

Even at moderate inflation levels (2%–5%), increasing pricing pressures often push interest rates higher. This reduces the real value of the fixed coupon payments and often lowers bond prices. Gold-adjusted returns frequently turn negative, meaning that real purchasing power, measured against Gold as a stable store of value, starts to erode.

The Squeeze Phase: Mounting Pressure

As inflation climbs, the damage accelerates. Higher yields crush existing bond prices while newly issued bonds still fail to fully offset inflation. This Squeeze showed up for bonds strongly in the late 1960s, 2004 and 2005 (bonds suffered damage in 2006), 2017, and 2021–2025.

High Inflation Delivers Severe Damage

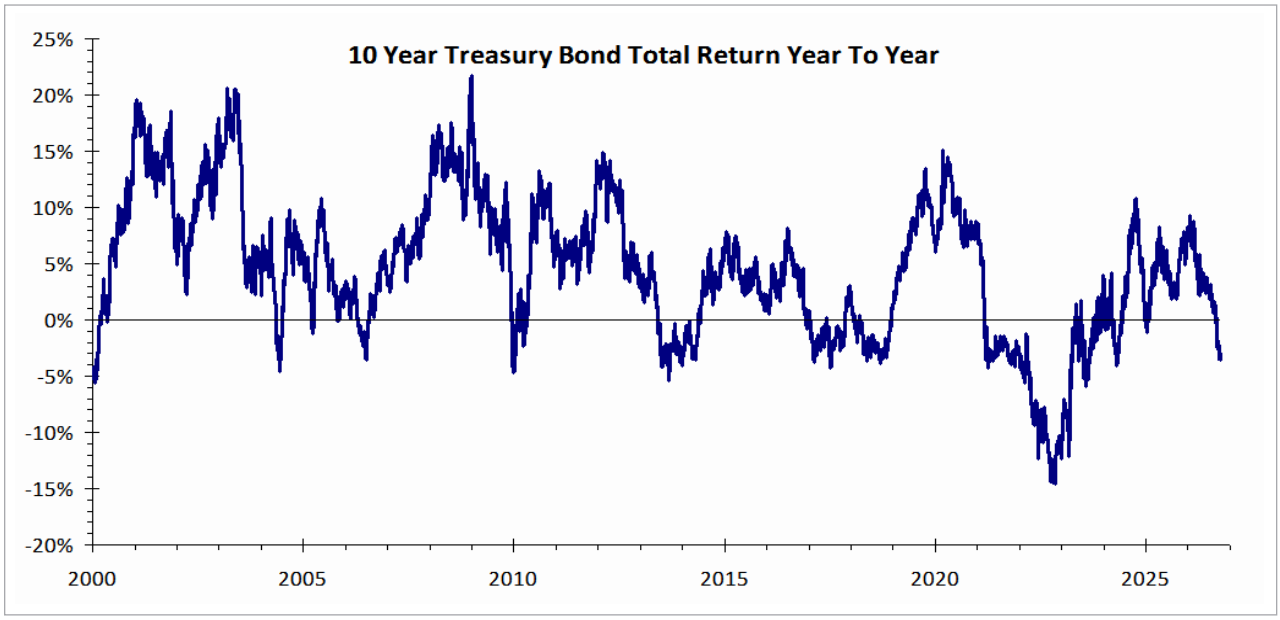
Inflation rates above 7% have a significant negative impact on bond prices. Bonds suffer clear destruction in real terms, and yields fall behind the inflation rate. The 1970s and 2022 stand out when nominal returns turned negative or barely positive, while Gold-adjusted losses were also heavy.

In the 1970s, discounted bond funds proliferated because the market value of the bonds collapsed. They were bundled together such that you purchased the bonds not for yield but for price appreciation.

Latest CPI Figures Still Imply Pressure on Bonds

With CPI at 3.7% year-over-year as of September 2026, bonds appear to be entering a Squeeze phase. 10-year Treasury bond yields have recently risen to nearly 5.33%, and total returns are now declining year-to-year.

10-Year Treasury Bond Total Returns Are Falling Year To Year

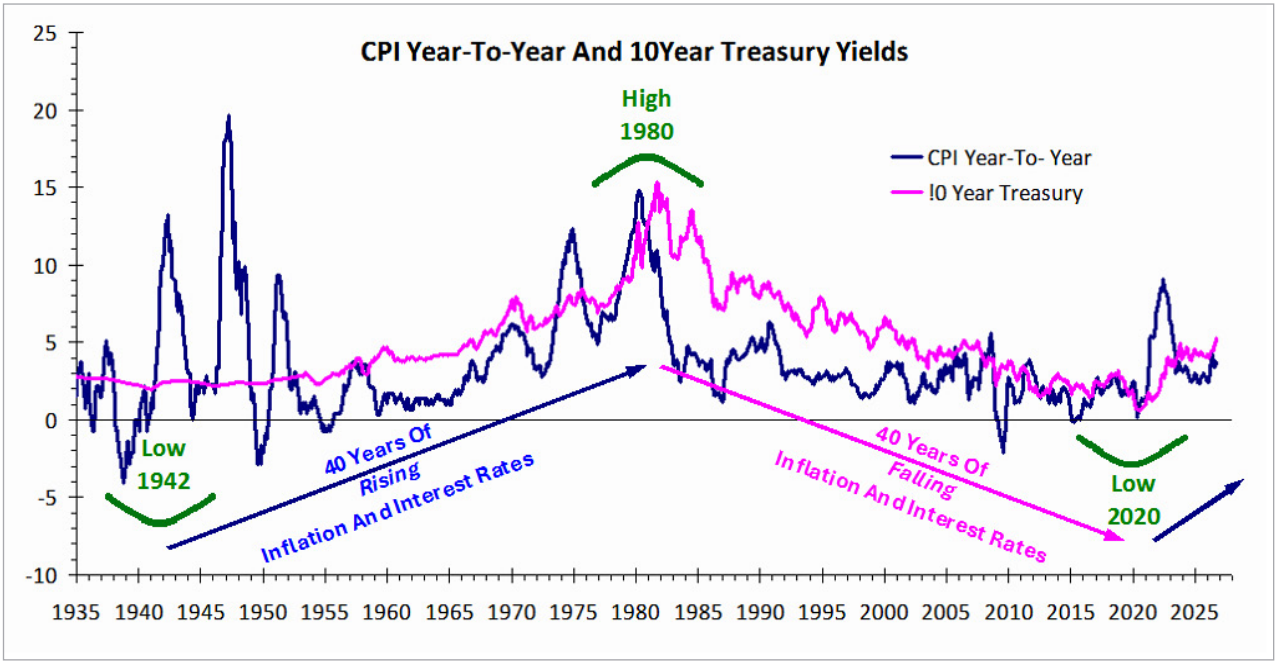


Source: Bloomberg, Sanctuary Wealth, October 10, 2026

Long Cycles Of Rising And Falling Inflation

From the early 1940s until 1980, inflation in the U.S. rose from falling year-to-year price levels to the mid-teens, peaking at 14.73% year-to-year in April 1980. Bond yields rose along with the rising price levels over those 40 years, with the 10-year Treasury peaking at 15.15% in October 1981, some six quarters after inflation peaked. From there, inflation fell for 40 years until the early 2020s, and 10-year Treasury yields again followed suit, bottoming at 0.53% in July 2020. Today, we believe we have entered a secular shift in inflation where inflation remains elevated for some time.

Historical Path Of Inflation And Interest Rates



Source: Department of Labor, Standard & Poor's, Sanctuary Wealth, October 14, 2026

Why Gold Is Our Measuring Stick

A *numeraire* is a consistent reference point for measuring value. We use Gold because, historically, it has preserved purchasing power better than the U.S. dollar over long periods.

By comparing Gold with S&P 500 total returns (price change plus reinvested dividends) and 10-year Treasury total returns (price change plus interest), we can strip away inflation's distorting effect and assess changes in real wealth. The comparison shows whether stocks and bonds are actually increasing purchasing power or losing ground even when their nominal returns appear positive.

So why do this? For stocks, this helps distinguish periods when moderate inflation supports real gains from periods when higher inflation creates the appearance of wealth creation without a corresponding increase in purchasing power. For bonds, it quickly exposes the steady destruction of fixed payments in rising inflation environments. This Gold-adjusted framework provides a clearer view of performance across different inflation cycles.

Inflation's Impact On Tech Stocks And Semiconductors

Leaders Feel Near-Term Cost Pressure

Rising labor, materials, and construction costs for data centers and fabs (semiconductor fabrication facilities) remain real headwinds. All-in greenfield data center construction costs in North America now average $17.6 million per megawatt, up 21% since Q4 2024, according to Brendan Lynch at Barclays. Longer permitting timelines, a tighter labor market, and supply chain constraints are among the primary drivers. Fully loaded AI-optimized facilities, including GPUs and servers, run $21 million to $31 million per megawatt, according to Lynch.

Material costs for data center equipment rose 33% in 2025 and a further 9% through July 2026, with copper, steel, aluminum, and specialized cooling systems among the primary drivers.

Semiconductors continue to face "chipflation" in upstream inputs. J.P. Morgan estimates DRAM prices could rise more than 400% from the start of 2024 through the end of 2026 as AI data centers absorb an increasing share of global memory supply, putting additional pressure on margins for companies with heavy capital spending.

Debt Costs Add a Layer of Friction

Higher yields raise borrowing expenses for new capex and working capital. Hyperscaler capital expenditures [Oracle (ORCL), Microsoft (MSFT), Amazon (AMZN), Meta (META), and Alphabet (GOOGL)] are projected to exceed $800 billion in 2026 – more than double 2025 levels and surpassing their combined operating cash flow for the first time – while the broader U.S. AI infrastructure buildout is estimated at roughly $10.3 trillion over 2025–2032, according to Stijn Van Nieuwerburgh in a Brookings Institution report called *Financing The AI Buildout,* dated September 24. As internal cash flow is no longer sufficient, financing is shifting toward project debt, private credit, leases, joint ventures, and special-purpose vehicles. These structures expand funding capacity but raise asset-level leverage and often carry higher interest costs than pure corporate debt, meaning companies and project vehicles that rely on debt markets will face elevated financing expenses.

AI Buildout Is The Biggest Investment Share Of GDP In U.S. History

Van Nieuwerburgh estimates that the AI buildout will result in $10.3 trillion of investment over 2025–2032. To put this into perspective, he provides a table of large capital investments over the past 200 years. As a percent of GDP, the next-largest capital investment was railroads in the 19th century.

AI should be more than 3 times the size of either the interstate highway project of the 1950s-1970s or the telecom and fiber investments of the Dot-Com Boom.

Table 1. Selected U.S. Capital-Expenditure Booms

Episode	Period	Size (% of GDP)
Canals	1836–1841	0.66
Railroads	1870–1890	2.24
Electrification	1905–1925	0.50
Highways	1956–1973	1.13
Telecom and fiber	1996–2003	1.10
AI buildout	2025–2032	3.63

Notes: Size is average annual capital expenditure as a percentage of GDP over the indicated period.

Source: "Financing the AI Buildout," Stijn Van Nieuwerburgh, Brookings Papers on Economic Activity, Fall 2026, The Brookings Institution, BPEA Conference Draft, September 24-25, 2026

Pricing Power Offsets Much of the Pain

AI-driven demand for compute is supporting a massive infrastructure buildout, with hyperscaler capital expenditures projected to exceed $800 billion in 2026. Under Nieuwerburgh's central assumptions, 2025–2032 U.S. capacity additions would require roughly $3.7 trillion in annual revenue by 2032 to deliver a 10% unlevered return, assuming a 50% operating cash-flow margin and pricing broadly consistent with current frontier-GPU rental prices. This indicates that, so far, strong AI demand and pricing power have supported the economics of the buildout and helped semiconductor and related equipment suppliers generate superior earnings growth, though sustained pricing will depend on demand holding up as capacity scales.

Net Effect: Near-Term Chop, Long-Term Tailwinds Intact

Inflation and yields could create volatility and modest margin pressure in 2027, especially if rates stay elevated. However, the AI secular boom continues to dominate. The leaders remain net beneficiaries.

Risks To AI From Inflation

Technology stocks do face some downside risks from inflation. These include:

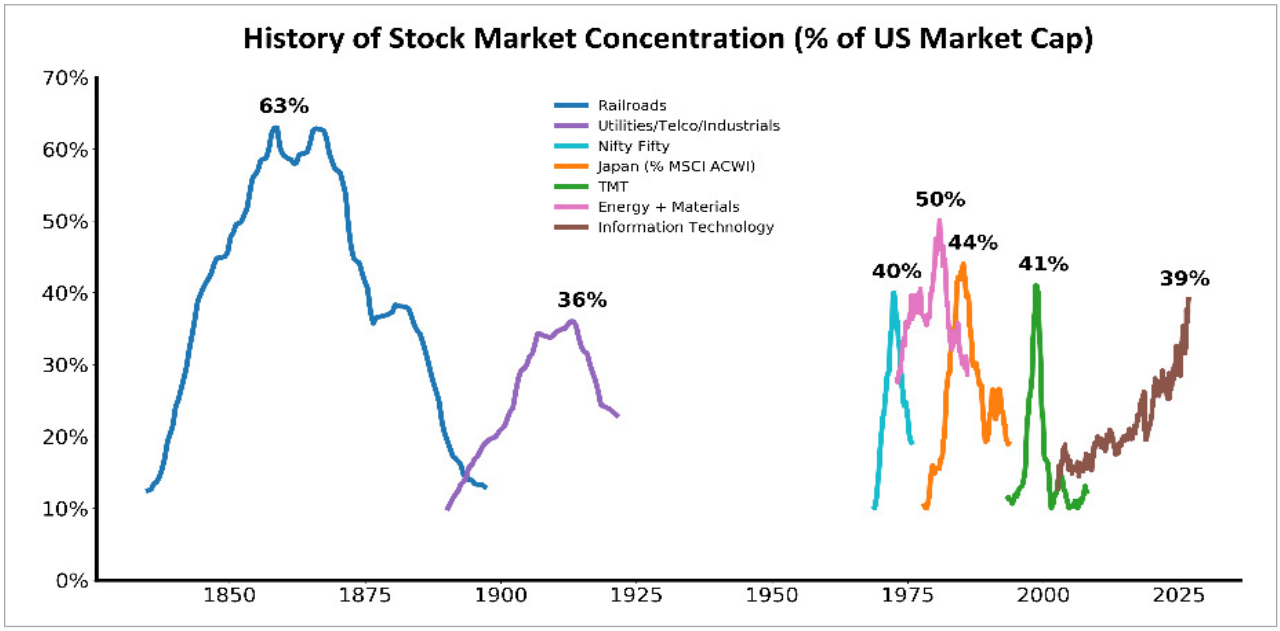
- Faster-than-expected cost inflation without full pricing offset
- Prolonged high yields crimping smaller or leveraged players
- Any slowdown in hyperscaler capex hitting demand

The AI Boom In Historic Perspective

The boom in artificial intelligence has no exact historic parallel. In some respects, it resembles the railroad boom of the 19th century, with its enormous demand for capital and intense competitive pressures. In others, it recalls the spread of electricity from the late 19th century well into the 20th century because of its potential ubiquity. Nearly all modern technology depends on electricity in some form, and we suspect that, before many more years pass, the same may be true of AI.

Stock Performance Is Increasingly Concentrated

As the accompanying chart shows, market capitalization has become increasingly concentrated in Information Technology, which now accounts for 39% of the S&P 500. That is not an all-time high — and remains well below the 62% share represented by railroads in the mid-19th century — but the degree of concentration is notable nonetheless.



Source: Bloomberg, Sanctuary Wealth, October 10, 2026

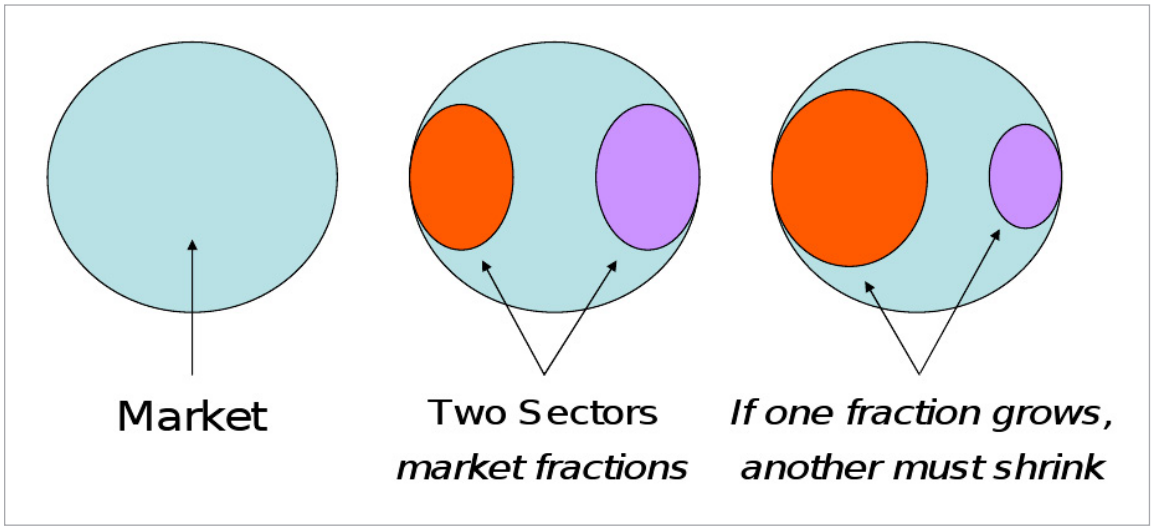
Visiting With The Relatives

One way to select positions is through *relative price*. Relative price compares the price performance of one asset with another. A simple example is dividing the price of one stock by another to determine which has been the stronger performer. Looking at sectors relative to the S&P 500 can provide insight into which are leading or lagging the broader market.

How This Can Be Useful: Determining Which Asset Is Best – Or Worst

From a relative-price standpoint, every portfolio is always fully invested. A portfolio consisting entirely of cash (for instance, a money market fund) is still fully invested in that position. The investor's task is then to determine which asset offers the better relative return.

Sometimes the best choice is simply avoiding the worst one. Professional investors spend considerable effort identifying the weakest positions so they can avoid them entirely or minimize their exposure. If you could own the entire S&P 500 except for its 100 worst-performing stocks, the mathematics suggests you should outperform the benchmark. Today, the market is more concentrated, so trying to beat the S&P 500 is becoming extremely difficult.



It is important, however, to have a clear objective when using relative price as an investment tool. In a bull market, a sector, industry, or stock can rise in absolute terms while still declining relative to the benchmark. Investors who hold these positions may be prioritizing income over price appreciation. Real Estate Investment Trusts and Utilities are good examples, as income-oriented investors often receive a significant portion of their total return from distributions rather than capital gains. Consumer Staples offers another example: the sector often lags during bull markets without necessarily declining, then tends to hold up better than many other sectors during market downturns and outperform on a relative basis.

In this section, we examine each sector using its absolute price in the top chart and its relative price versus the S&P 500 in the lower chart. We use ETFs rather than the S&P sector indexes, specifically the ETFs selected for the MAB Select Sector Portfolio.

In our analysis, we compare each sector with the S&P 500. A rising line indicates that the sector is outperforming the S&P 500; a declining line indicates that it is underperforming.

Sector ETF Choice

The large sector families are the S&P Sector SPDRs, sponsored by State Street Investment Management, and iShares, sponsored by BlackRock.

For reference, here is a table of the S&P SPDR and iShares sector ETFs.

Ticker		
Sector	**SPDR**	**iShares**
Consumer Discretionary	XLY	IYC
Consumer Staples	XLP	IYK
Energy	XLE	IYE
Financials	XLF	IYF
Healthcare	XLV	IYH
Industrials	XLI	IYJ
Information Technology	XLK	IYW
Materials	XLB	IYM
Communication Services	XLC	IYZ
Real Estate	XLRE	IYR
Utilities	XLU	IDU

Both families of ETFs cover the same 11 standard sectors and use market capitalization weighting, but they differ in three key ways.

1. SPDRs track S&P 500 sector sub-indices. Holdings are drawn exclusively from S&P 500 constituents. They are large-cap U.S. only.
   iShares sector ETFs (e.g., IYW, IYF) track the Russell 1000 index, which casts a broader net and can include mid- and small-cap names beyond the S&P 500.
2. SPDRs have a 0.08% expense ratio, while iShares have a 0.37% expense ratio
3. SPDRs currently have greater assets under management (AUM), which generally translates to tighter bid-ask spreads and deeper liquidity.

Here are the five largest sector ETF families, according to Bloomberg, along with their sizes relative to one another (not the entire sector ETF universe).

Family	AUM (B)	Share
SPDR (State Street)	$399.60	51.60%
Vanguard	$276.10	35.60%
iShares (BlackRock)	$48.20	6.20%
Fidelity MSCI	$40.30	5.20%
Invesco Equal Weight	$10.40	1.30%

Consumer Discretionary Underperforming The Market

Consumer Discretionary stocks are driven by consumer spending on automobiles; durables and apparel; consumer services such as education, hotels, restaurants, casinos; and retailers. The stocks are holding support that has been in place since late 2021, but in a low-hire, low-fire labor market, the sector is underperforming the S&P 500, with its relative line declining in the bottom section of the chart.

Amazon (AMZN) is classified as a Broadline Retailer and has a significant weight in the sector index of 23% and Tesla (TSLA) has an 18% weight.

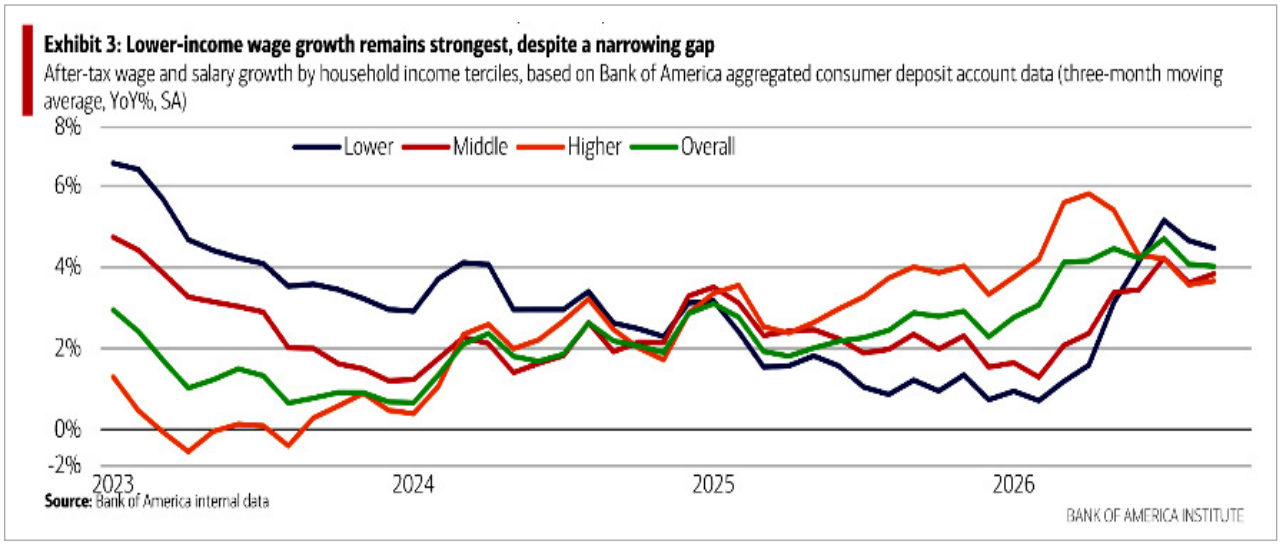
SPDR Consumer Discretionary ETF (XLY) (Top) With Relative Price (Bottom)

Source: Bloomberg, Annotations by Sanctuary Wealth, October 11, 2026

Consumer Income Is Growing, Especially Among The Lowest Quartile Of Earners

Bank of America reports that consumer incomes are improving year over year. Workers whose incomes are improving fastest are those who are lowest-earning.

Bank Of America Tracks Consumer Incomes Over the Past 4 Years



Source: Bank of America Institute, October 7, 2026

Consumer Staples Sector Is Underperforming The Market

Consumer Staples are usually considered defensive stocks. In an economy that is growing with earnings expanding, defensive stocks are less attractive. The sector is holding its own at support that has been in place since 2022, first as resistance, then as support beginning early this year.

The sector consists of food, beverages, and tobacco; retailers such as drug stores, groceries, and hypermarkets [such as Walmart (WMT) and Costco (COST)]; and household and personal products.

While the sector has underperformed the S&P 500 for four years, in past cycles, it has shown good relative performance during economic contractions and weak equity markets.

iShares Consumer Staples (IYK) (Top) With Relative Price (Bottom)

Source: Bloomberg, Annotations by Sanctuary Wealth, October 11, 2026

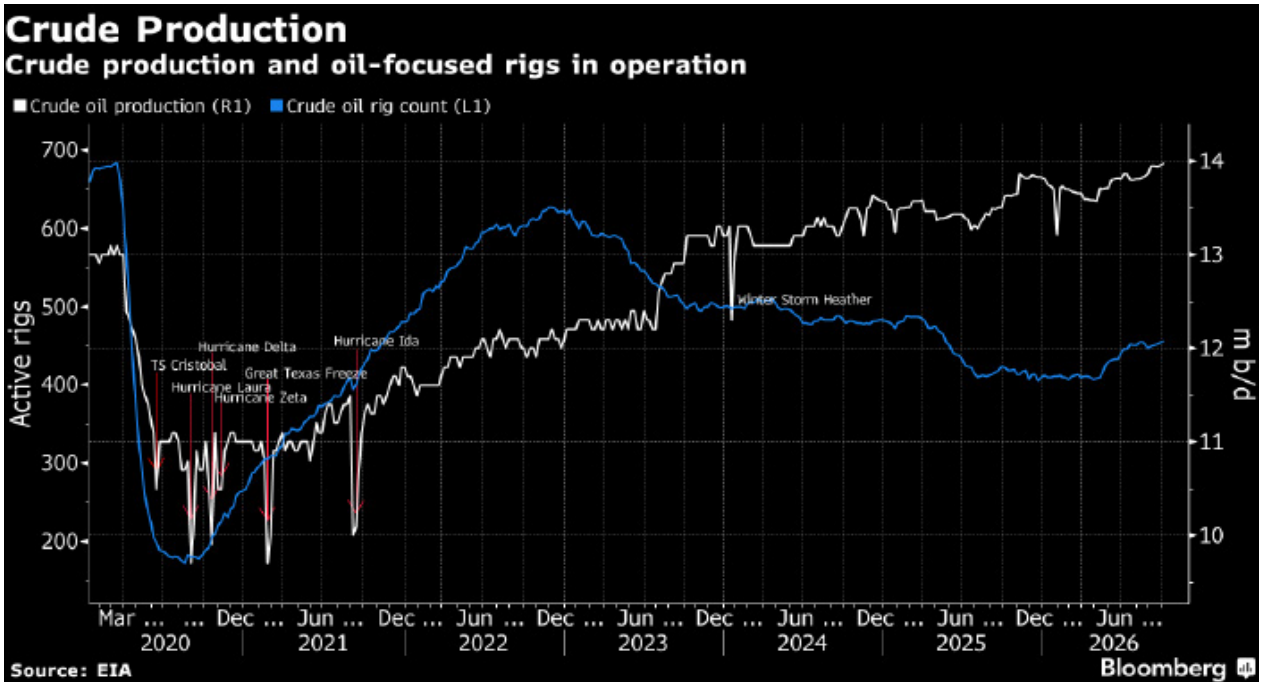
Energy Is Outperforming The Market

The Energy sector has been the strongest performer so far in 2026, driven by a severe tightening in oil supplies amid hostilities involving the U.S. and Israel on one side and Iran and its allies on the other. Higher energy prices have boosted sector earnings, giving Energy the strongest earnings growth in the market.

SPDR Energy ETF (XLE) (Top) With Relative Price (Bottom)

Source: Bloomberg, Annotations by Sanctuary Wealth, October 11, 2026

U.S. Crude Oil Production Rises Even As The Number Of Oil Rigs Declines

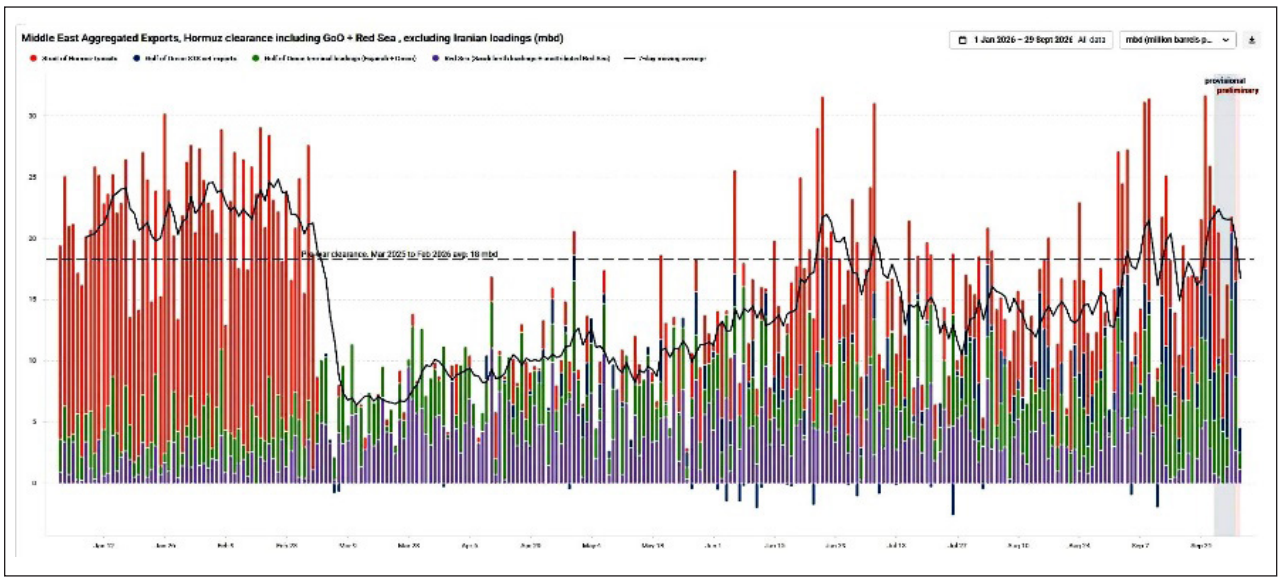


Source: Bloomberg, October 7, 2026

Middle East Crude Exports Rebounded Above Pre-Conflict Levels

According to Kpler, a global commodity and shipping intelligence firm, Middle East crude exports exceeded pre-Iran-conflict levels in the final week of September. Exports reached 19.5–22.5 million barrels per day on September 24 and September 27–29, above the pre-conflict average of 18 million barrels per day. Exports exceeded that average on four of seven days despite continued attacks on vessels in the Strait of Hormuz.

Middle East Aggregated Export, Hormuz Clearance Including Gulf Of Oman + Red Sea, Excluding Iranian Loading Millions Of Barrels Per Day



Source: Kpler, October 5, 2026

Oil Refining & Marketing Are Performing Very Well At This Juncture

VanEck Oil Refiners ETF (CRAK) is a pure-play ETF focused on Refining & Marketing. A significant shortage in refining capacity is boosting the relatively small number of publicly traded refiners.

VanEck Oil Refiners ETF (CRAK) (Top) With Relative Price (Bottom)
The Vertical Line Is February 28, 2026, When The Iran Conflict Began

Source: Bloomberg, Annotations by Sanctuary Wealth, October 11, 2026

Financials Underperforming, Hit By Higher Rates And Flatter Curve

Financials stand to benefit from an increase in equity issuance, trading, and spreads on lending as interest rates rise. We also anticipate deregulation within the sector, which should increase earnings. The Banks are trading at 1.3x book value, which makes the industry group cheap. The group does not become expensive until 2.0x-3.0x book value. We don't believe Banks have peaked and therefore anticipate improvement in the sector.

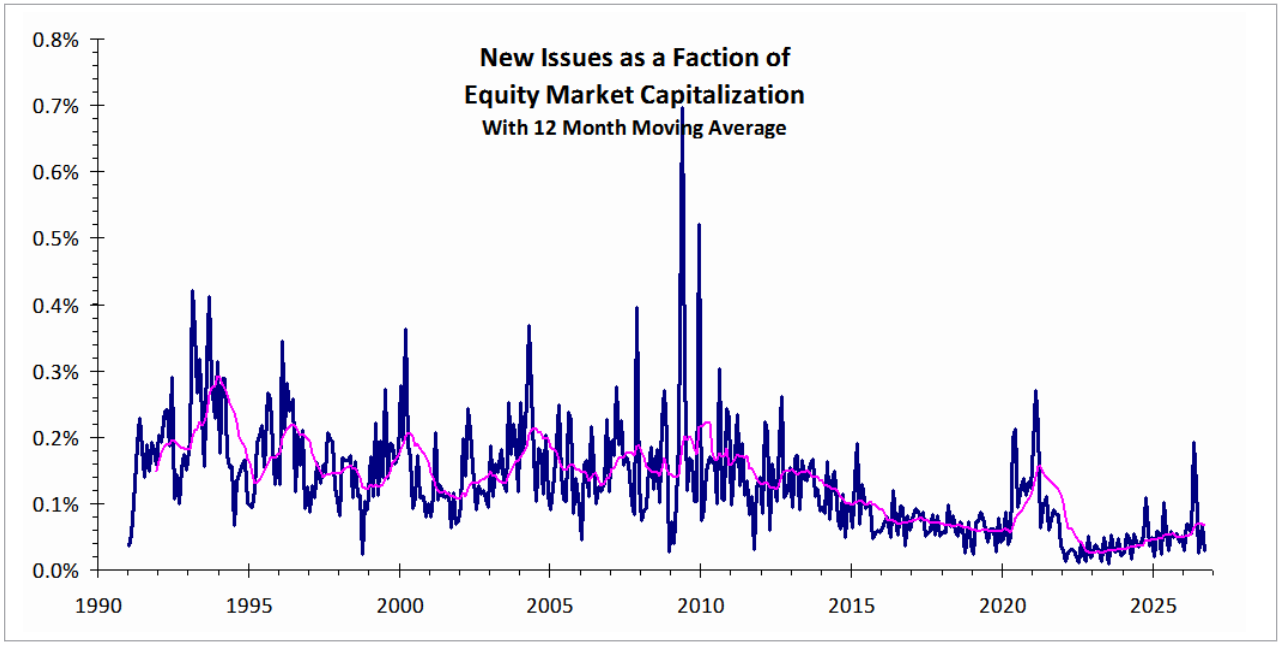
iShares Financials ETF (IYF) (Top) With Relative Price (Bottom)

Source: Bloomberg, Annotations by Sanctuary Wealth, October 11, 2026

The U.S. Has Plenty Of Room To Increase Equity Issuance

There has been some discussion that large equity offerings, such as SpaceX (SPCX) in May and the upcoming Anthropic initial public offering (IPO), are liable to burden the market. We disagree, and we note that new issues of equity as a fraction of market capitalization are near historic lows.

New Equity Issuance As A Fraction Of Equity Market Capitalization Is Historically Low *And Yes, That Little Spike At The End Is SpaceX (SPCX)*



Source: Bloomberg, Sanctuary Wealth, October 11, 2026

Healthcare Attempting To Improve

Within the S&P 500 Healthcare sector, Pharmaceuticals accounts for 37.75% of total market capitalization, while Biotechnology is the next-largest industry group at 19.44%. Pharmaceutical margins remain under pressure, particularly from Medicare efforts to lower drug costs. The stocks have become inexpensive, and the sector appears to be trying to find a bottom. We do not yet see leadership from the sector. The Biotech industry group is favored for growth and is performing well relative to the S&P 500.

SPDR HealthCare ETF (XLV) (Top) With Relative Price (Bottom)

Source: Bloomberg, Annotations by Sanctuary Wealth, October 11, 2026

iShares Biotechnology ETF (IBB) (Top) With Relative Price (Bottom)

Source: Bloomberg, Annotations by Sanctuary Wealth, October 11, 2026

Industrials Are Underperforming The S&P 500

The Industrials sector is divided into Commercial & Professional Services, Capital Goods, Aerospace & Defense and Transportation. Capital Goods is particularly strong, due to demand for infrastructure. The sector has been hit hard as interest rates have risen and the Federal Reserve has begun a tightening cycle. We believe the economy is still growing, and the sector should still benefit from the AI buildout. We find value in this sector.

iShares Industrials ETF (IYJ) (Top) With Relative Price (Bottom)

Source: Bloomberg, Annotations by Sanctuary Wealth, October 11, 2026

The U.S. Electric Grid Is Aged And Needs Expansion And Modernization

U.S. data center power demand is forecast to reach 118 GW by 2030. But around half of U.S. and EU grids are over 20 years old, requiring replacement and modernization, including transformers and other high-voltage equipment; control & automation equipment and systems; and energy management systems. This area of the market is performing well.

First Trust NASDAQ Clean Edge Smart Grid & Energy Innovation ETF (GRID) (Top) With Relative Price (Bottom)

Source: Bloomberg, Annotations by Sanctuary Wealth, October 11, 2026

Information Technology Is The Clear Leader Of This Market

Information Technology is the leader of this secular bull market. It has risen sharply over the past year, extending a trend that began in 2022 and, more broadly, a leadership trend that has persisted for much of the past 18 years. Its relative price low was achieved 24 years ago this month, following the Dot-Com Bust that ended the boom years of the 1990s.

Semiconductors are leading Information Technology and continue to outperform the S&P 500. That industry group is at the vanguard of artificial intelligence (AI) and the data center buildout, which together represent one of the most important technological shifts in centuries. Cybersecurity also is emerging as a strong leader within the sector.

iShares Technology ETF (IYW) (Top) With Relative Price (Bottom)

Source: Bloomberg, Annotations by Sanctuary Wealth, October 11, 2026

Global X Cybersecurity ETF (BUG) (Top) With Relative Price (Bottom)
Strong Rally Against AI-Powered Cyber Threats

Source: Bloomberg, Annotations by Sanctuary Wealth, October 11, 2026

VanEck Semiconductor ETF (SMH) (Top) With Relative Price (Bottom)
Parabolic In Both Price (Top) And Relative Price (Bottom)

Source: Bloomberg, Annotations by Sanctuary Wealth, October 11, 2026

The VanEck Semiconductor ETF Reflects The Strong Sales of Semiconductors

There is no perfect historical comparison for the importance of Semiconductors to modern technology. The closest may be the steam engine in the 19th and early 20th centuries, though even that analogy is imperfect. Both became foundational technologies, embedded across a wide range of industries and essential to the way their respective economies functioned. Steam power, in fact, remains critical today because much of the world's electricity is still generated by heating water into steam to drive turbines, whether by coal, oil, natural gas, or nuclear power.

Semiconductor Industry Association (SIA) Global Semiconductor Sales Data Billions Of Dollars, Monthly

Source: Bloomberg, October 11, 2026

Materials Are Underperforming

The Materials sector has steadily declined as a share of the S&P 500 over the past several decades and now represents only about 2.5% of the index. That is a sharp contrast with the late 1970s and early 1980s, when Materials played a much larger role during a period of double-digit inflation.

Today, demand for copper and rare earths is increasing as the AI buildout accelerates. Materials stocks have performed well, but they have not emerged as market leaders, as reflected in the sector's relative price versus the S&P 500. There are bright spots, however, including smaller gold miners, whose margins are highly sensitive to rising Gold prices and whose stocks have shown support in both absolute and relative terms over the past four years. Precious metals can also provide an effective hedge against inflation, particularly Gold and Gold mining stocks, which we continue to favor.

State Street Materials Select Sector SPDR ETF (XLB) (Top) With Relative Price (Bottom)

Source: Bloomberg, Annotations by Sanctuary Wealth, October 11, 2026

VanEck Junior Gold Miners ETF (GDXJ) (Top) With Relative Price (Bottom)

Source: Bloomberg, Annotations by Sanctuary Wealth, October 11, 2026

Communication Services

Communication Services consists of media & entertainment such as interactive media and movies; and general media such as advertising, broadcasting, cable & satellite, and publishing & printing; and telecommunication services, including broadband internet providers [AT&T (T), Comcast (CMCSA)] and wireless providers [Verizon (VZ) and T-Mobile (TMUS)]. Alphabet (Google, GOOGL) and Meta (Facebook, META) are in Interactive Media, while Netflix (NFLX) is classified as Movies & Entertainment.

The sector has risen steadily since 2021 and is presently near support levels, but it has declined recently on a relative price basis against the S&P 500.

SPDR Communication Services ETF (XLC) (Top) With Relative Price (Bottom)

Source: Bloomberg, Annotations by Sanctuary Wealth, October 11, 2026

Real Estate Investment Trusts Are Significantly Underperforming

The Real Estate Investment Trust (REIT) sector is unlike the others because investors receive a substantial portion of their returns through distributions generated by REIT investments in areas such as data centers, healthcare, mortgage REITs, residential properties, hotels & resorts, industrial properties, offices, retail, telecom towers, and timber. REITs are a whole world unto themselves.

REITs are required by law to distribute at least 90% of their taxable income annually to shareholders to maintain their REIT tax status. These payments are formally called distributions rather than dividends because they can include components that are not derived from earnings. How those components are taxed is important to investors. Ordinary income distributions — derived from rental income and operating cash flow — are taxed as ordinary income; capital gains distributions, representing proceeds from property sales passed through to shareholders, are taxed at long-term capital gains rates; and return of capital (ROC) distributions, which arise when distributions exceed taxable income, are not taxed immediately but instead reduce the investor's cost basis.

On a total return basis, REITs are competitive with broader market benchmarks, but on a *price return basis alone,* they will typically underperform because a substantial portion of total return is delivered through distributions rather than capital appreciation. REIT investors are rarely focused primarily on price return. They are seeking the income stream and potential tax advantages that REIT distributions can provide.

State Street Real Estate Select Sector SPDR ETF (XLRE) (Top) With Relative Price (Bottom)

Source: Bloomberg, Annotations by Sanctuary Wealth, October 11, 2026

Utilities Also Underperform

Utilities are heavily regulated, carry significant bond financing, and are consequently sensitive to interest rates. They are considered defensive stocks – tending to outperform on a relative price basis during economic contractions – and typically offer higher dividend yields than the broader market (excluding REITs). Higher interest rates generally weigh on the sector.

In the current environment, however, electric utilities are in a peculiar position. Data centers consume massive amounts of power, and utilities able to supply it – through long-term contracts or by restarting mothballed nuclear or coal-fired plants – stand to profit handsomely, subject to regulatory approval. The catch: data centers are a target of public ire over their perceived upward pressure on electricity prices and water consumption.

Utilities have underperformed despite the higher demand for energy. Higher interest rates have been the primary contributor to their underperformance. The sector may be near an interim bottom with interest rates appearing to have cyclically peaked.

iShares Utilities (IDU) (Top) With Relative Price (Bottom)

Source: Bloomberg, Annotations by Sanctuary Wealth, October 11, 2026

Independent Power Producers Are Free Of Regulation. But There Are Only 4 Of Them.

Independent power producers are unregulated and sell electric power at wholesale market prices and by long-term contract. Constellation Energy (CEG) is classified as an electric utility rather than an independent power producer, implying that it is regulated like DUKE (DUK) or Southern Company (SO), but virtually none of its electric power production is subject to regulation. There is no pure-play ETF for this sub-industry.

Ticker	Company	Primary Generation Mix
CEG	Constellation Energy	Nuclear
VST	Vistra Corp	Nuclear + Natural Gas + Coal
TLN	Talen Energy	Nuclear + Natural Gas
NRG	NRG Energy	Natural Gas + Coal

Last Words

The S&P 500 remains in a secular bull market. Strong earnings growth, continued upward earnings estimate revisions, and reasonable valuations make us comfortable with our S&P 500 year-end target at 8,225. Over the coming years, we still see the index reaching a secular peak near 10,000–13,000. Information Technology remains the secular market leadership, with Semiconductors the industry leader within the sector.

The Federal Reserve has begun a tightening cycle and it historically takes several interest rate hikes by the Fed to disrupt a bull market rally. There is an old Wall Street adage: "three steps and a stumble," meaning it takes three interest rate hikes to cause a correction in stocks. It matches an observation of investor Sir John Templeton: "Bull markets are born on pessimism, grow on skepticism, mature on optimism, and die on euphoria." The market may be mature, but we don't believe we have reached euphoria.

Near term, we continue to expect volatility, driven primarily by the unresolved conflict with Iran and the uncertainty typical of a mid-term election year. October has historically been a month when major market bottoms form, often setting the stage for a year-end rally. We remain buyers of this market and continue to expect stocks to move higher into year-end. We do not expect higher Fed interest rates to significantly weaken the economy or consumer spending this year, although that risk could become more meaningful as we enter 2027.

Risks To Our View

Two of these risks were discussed above; we would add two more:

- Renewed hostilities that once again block oil shipments from the Middle East, causing oil prices to rise sharply.
- A sharp spike in 10-year Treasury yields. We believe a move above 5.5% could pose a problem for the equity market.
- An unexpected disruption to global trade.
- A sudden rise in unemployment or a slowdown in consumer spending.

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