SANCTUARY WEALTH

SANCTUARY ASSET MANAGEMENT

CIO CORNER

June 2022

A WORD FROM
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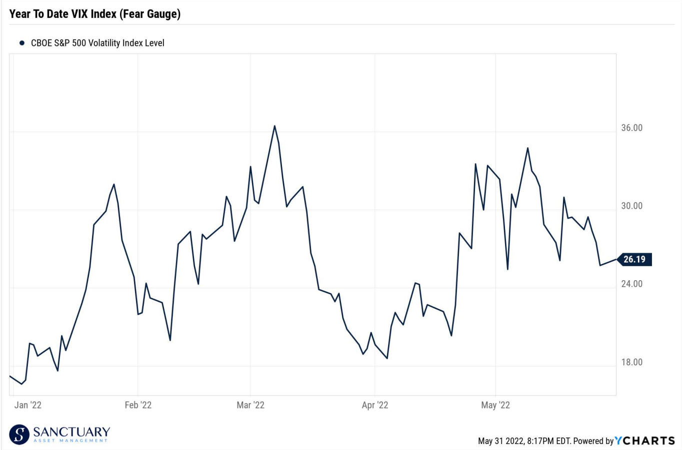
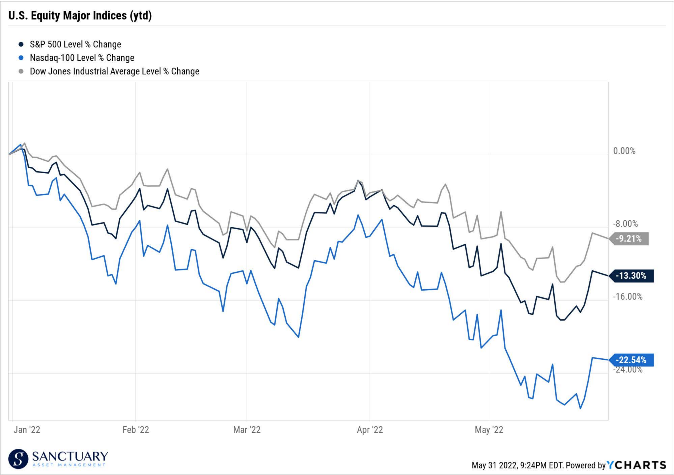
U.S. stocks closed out a bumpy month that saw the S&P 500 flirt with bear market territory amid inflation and recession fears. June possibly presents investors some certainty on the path of interest rates as well as a tremendous opportunity to tax loss harvest, focus on value names and reposition your portfolio for the long term.

Perseverance has been a key and essential ingredient for investors thus far in 2022. The U.S. major indices all closed on a flat note to end what was another tumultuous month for stocks, even if the monthly returns look rather uneventful. The S&P 500 finished the month up by a single point, actually finishing April at 4,131 points then closing May at 4,132. Of course, there was plenty of volatility to grapple with along the way. The S&P 500 moved 2% or more on eight of the 21 trading days in May, which is equal to a VIX calculation of roughly 32. The S&P 500 bottomed out on May 19, down almost 6% on the month and then flirted with bear market territory, before clawing back those losses in a feverish manner, sparking some optimism. Still, stocks remain well off their highs for the year. The Dow Jones is 10.7% below its record. The S&P 500 is down 14.2%, and the Nasdaq is off by 25.5%.

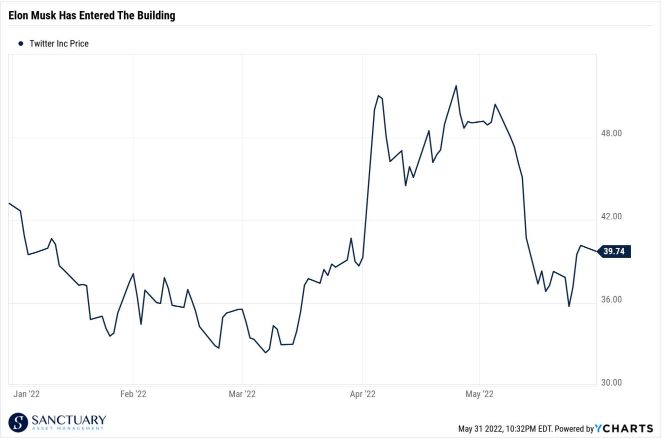
Volatility persisted in May as investors continue to be concerned about the war in Ukraine, Covid outbreaks and subsequent lockdowns in China. The additional uncertainty surrounding the Fed's new tightening policy, stubborn inflation and the never abating supply chain issues also kept the CBOE's VIX index elevated and above 25 for most of the month.



May chalked up another choppy month for equity markets as concerns over inflation and interest rate hikes weighed heavily on sentiment. For the month of May, the Dow and S&P 500 finished little changed, after last week's strong rally chipped away at long losing streaks for the indices. The Nasdaq again underperformed, shedding more than 2%.

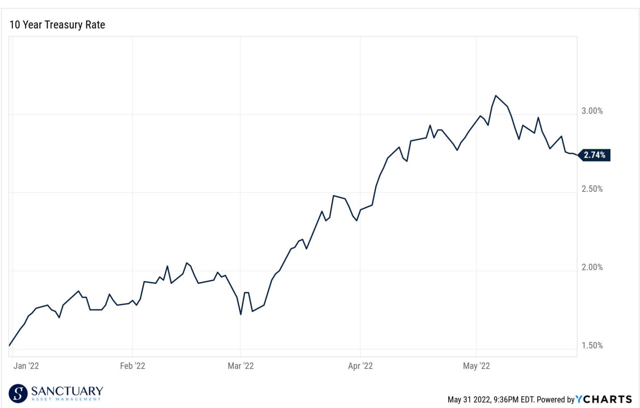


Elon: Elon Musk's $44 billion deal to acquire Twitter has been the subject of countless headlines as the edgy CEO has made his issues with the acquisition very public. Earlier in May, Musk sent Twitter shares tumbling when he said he was going to put the deal worth $44 billion "on hold" while he researches the proportion of fake and spam accounts on the platform. The deal has been stuck in controversy since Musk first proposed it in April, and shares are trading significantly below the $54.20 acquisition price, suggesting investors have relatively low confidence the deal would go through at that price.

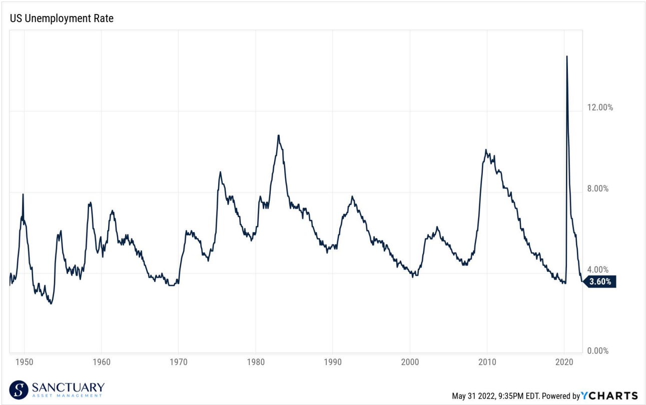


Fed: The month of June is historically a quiet one for the stocks, which would certainly be a welcomed rest period after nearly two quarters of heightened volatility. Stocks are higher on average 55% of the time in June going back to 1945, and volatility is typically very low, second only to December. However, I am not leaning on that data as investors skittishly approach on their tiptoes for another historical Fed meeting in the middle of June. The Fed is under severe pressure to decisively reverse course on a white-hot inflation rate that is currently running more than three times its 2% goal. This has caused a brutal and damaging jump in the cost of living for Americans from coast to coast. Our Federal Reserve faces a difficult task in dampening demand in the economy enough to curb inflation while not tipping us deeply into a recession. Of course, we must remember that the stronger than expected inflation was actually designed by the Federal Reserve...remarkably frustrating when you unpack that piece of the puzzle.

Most are doubtful that Fed Chairman Jerome Powell will be able to thread the needle for a much-needed soft landing. But, due to the Federal Reserve's telegraphed rate hikes, further economic uncertainty and never-ending geopolitical events, June this year is unlikely to follow the historic pattern of low volatility. Buckle that chinstrap as it is critical to recall that volatility can sometimes take markets up as quickly as they can down.



Jobs Jobs Jobs: Investors will look towards the all-important May jobs report to further decipher how the Federal Reserve may proceed for the remainder of 2022. Economists forecast a gain of 325k jobs in nonfarm payrolls per a survey of economists by The Wall Street Journal. The unemployment rate is expected to remain unchanged at 3.6%, near historical lows. The labor market remains tight, as job openings continue to outpace job seekers.



U.S. Treasuries: The 10-year note yield logged its first monthly decrease in yield since last Fall, the benchmark 10-year yield fell nearly 10 bps. After a mid-month elastic 3.20% print in the 10-year note, we did see yields snapback and tuck under 2.75%. As fears over the Federal Reserve's plans to aggressively hike interest rates appeared to have possibly eased and key inflation readings have showed a slowing rise in prices, the 10-year note yield should settle in under 2.75%. I draw on over a decade of trading U.S. treasuries to fortify my view on the bond market providing leadership for equities. Moreover, the Fed will want moderation in yields for the balance of 2022 versus the Enzo Ferrari velocity we have had to endure since starting the year down at 1.53%.

Earnings: Disappointing quarterly reports in May from the likes of Walmart and Snap revealed that inflation is hurting American consumers and also eating into corporate profits. Amid a fairly solid earnings season, with some significant outliers, recession fears cooled amid a plethora of strong quarterly earnings reports that boosted investor sentiment. That strength displayed in both top and bottom lines was also coupled with optimism in forward guidance. Of course, that was on average, not the case for all companies and or sectors.

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Oil Prices: The price of oil had jumped to just over $119 a barrel last month, a level it hadn't seen since early March once markets reacted to Russia's horrible invasion of Ukraine. Oil was almost up double digits in percentage terms for the month, starting around $104.

Oil is a double-edged sword for the equity market, as it boosts energy stocks while also dangerously driving up inflation. The tensions around reduced supply from Russia could also increase this month, as China reopens after its Covid-19 lockdowns and reaches into the global oil market searching for more fuel. Across the nation, pain at the pump has reached new 2022 highs as the cost of gas surged around 30% since Russia attacked Ukraine in late February. 5/31/22 marks the highest recorder average price (nationally) of gasoline at a staggering $4.62 per gallon.

Bear Hibernation Persists: Bear market purists, who desire a close to be off 20% from a recent high close, almost rejoiced; almost is the key word. My U.S. Army Drill Sergeant father always says, "Almost only works in horseshoes and hand grenades." Although we technically intraday pierced that 20% level on the most recent S&P option expiration (5/20), the S&P had a snapback rally into the close that Friday, staving off a "true" bear market from a purist's perspective. The S&P 500 ended the month of May down about 14% from its January high.

Debt Market: The private debt market has grown in the past decade with assets under management of funds primarily involved in direct lending surging to more than $1T, spurred in part by investors' search for higher yield. Looking to compliment public fixed income exposure with private credit exposure continues to be a focus for investors in 2022.

POSITIONING FOR JUNE

After equity markets seemingly reached a peak in pessimism related to Fed expectations, investor sentiment and recession risk, June may present an opportunity to have stocks close the second quarter on a strong note. Market sentiment also was supported recently by the defense of the U.S. economy via several CEOs at the World Economic Forum in Davos. As also heard on several earnings calls in May, most CEOs admitted that business indeed had slowed recently amid inflation and continued supply chain challenges, but they collectively discounted a chance of recession in 2022.

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Please reach out if you would like to discuss further.

Best,

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