SANCTUARY
WEALTH

Sanctuary Investment Council

Investment Outlook

May 2024

Active Asset Allocation Views

Overview

The Sanctuary Investment Council (SIC) maintains its risk-reward trade-off between equities and fixed income as favoring equities, with the stronger equity market gains being supported by lower Treasury yields and prospects for a less restrictive Fed. Overall, the SIC outlook is bullish, with the S&P 500 expected to reach a year-end 2024 target range of 5400 to 5800, accompanied by anticipated rallies in small-cap stocks, albeit with limited earnings growth. The 5% pullback we were expecting occurred in April and equity markets are back at all time highs. In terms of fixed income markets, the SIC retains an up in quality approach paired with a neutral duration position.

Economy

Economic data continues to be mixed, creating volatility as markets parse every piece of data to gauge the next move by the Fed. On the positive side, the labor market remains strong, despite efforts by the Fed to slow the economy. The unemployment rate ticked up to 3.9% in April. First quarter GDP was weaker than anticipated at 1.6% annualized. Other data also remains weak. Surveys of manufacturing sentiment continue to signal contraction, and the ISM services index continues to decline and hover near contractionary territory. Inflation remains stubbornly elevated, with headline CPI up to 3.4% year-over-year in April, and Core at 3.6%, and both are still well above the Fed's target rate of 2%. The economic outlook remains healthy, although we expect growth to slow in the coming quarters. This is good news and is what both the markets and the Fed want.

Equities

The SIC maintains its slight overweight to our equity allocation based on the Council's assessment of a favorable risk-reward trade-off compared to fixed income and cash. Lower interest rates are supportive of equity valuations despite strong gains in 2023. If the downward trend in inflation remains intact and interest rates stabilize or fall, growth style stocks may outperform. The SIC favors U.S. equities over developed international due to the relatively stronger domestic economic growth outlook and superior earnings power, though the Council still finds Japanese equities attractive. Key risks to equities include renewed upward pressure on inflation and interest rates, a broader conflict in the Middle East or Europe, and escalation in U.S.-China tensions.

Fixed Income

Longer-maturity treasury yields increased in April as the market pushed out anticipated interest rate cuts by the Fed until September. Yields on high quality fixed income sectors moved higher as well, which caused core bonds to generate a negative return for April. Importantly, yields for many fixed income markets are still at levels last seen over a decade ago, so the return prospects for fixed income remain favorable. We favor municipal bonds as a high-quality option for taxable accounts with tax-equivalent yields as attractive as they've been in over a decade. Additionally, for appropriate investors, we believe high-yield municipal bonds offer an attractive tax-equivalent yield; however, we would expect additional volatility as economic growth concerns increase. Fundamentals in both markets may have peaked but remain solid.

Alternatives

The assessment that pent-up demand from investors to provide liquidity combined with the large dry powder overhang could fuel a flurry of deal activity in 2024 seems reasonable if market conditions continue improving. However, the cautionary notes about stubborn inflation, the risk of higher rates for longer, and potential ripple effects from issues in sectors like commercial real estate are valid concerns that could dampen performance. Credit spreads tightening in direct lending, as has opened up more financing options for private equity deals. The return of banks to LBO financing is another favorable trend supporting increased deal flow. However, there are still concerns around overleveraged companies from the 2020-2021 peak years struggling with higher interest costs.

Asset Allocation **Views**

			UW			N	OW			
			Conviction						Change	
BROAD ASSET CLASS		Equities					●			Stronger equity market gains being supported by lower Treasury yields and prospects for a less restrictive Fed.
BROAD ASSET CLASS		Fixed Income			●					Fixed income markets are walking back the expected number of Fed rate cuts.
BROAD ASSET CLASS		Cash				●				Looking to lock in longer maturity investment grade fixed income opportunistically.
ASSET CLASS	EQUITIES	U.S.					●			Lower interest rates are supportive of equity valuations despite strong gains in 2023.
ASSET CLASS	EQUITIES	U.S. Large Cap					●			Valuations are elevated. Mega Cap tech stocks would benefit from lower interest rates.
ASSET CLASS	EQUITIES	U.S. Mid Cap			●					Underweight suggesting skepticism; potential growth prospects slightly challenged.
ASSET CLASS	EQUITIES	U.S. Small Cap					●			Attractive valuations may continue to provide support. Benefiting from optimism about a soft landing.
ASSET CLASS	EQUITIES	U.S. Growth					●			Valuations are elevated yet could benefit from an improved macroeconomic environment and lower interest rates.
ASSET CLASS	EQUITIES	U.S. Value				●				Remain attractively valued and would benefit from a soft landing.
ASSET CLASS	EQUITIES	U.S. Preferred Stock				●				Preferred's are beginning to look more attractive, especially for income-oriented investors.
ASSET CLASS	EQUITIES	Intl. Developed			●					International stocks face challenges with global economic and earnings growth expected to be sluggish.
ASSET CLASS	EQUITIES	Intl. Emerging Markets				●				Emerging markets overall have tailwinds but weighed down by concerns over China economic stagnation.
ASSET CLASS	FIXED INCOME	Duration				●				The Council is maintaining our neutral duration position in fixed income.
ASSET CLASS	FIXED INCOME	Credit Quality					●			Credit risk outlook is stable, with a cautious focus on risk management.
ASSET CLASS	FIXED INCOME	Treasuries				●				Policy-driven rates have peaked.
ASSET CLASS	FIXED INCOME	MBS				●				High-quality agency MBS preferred.
ASSET CLASS	FIXED INCOME	Corporate IG			●					Underweight to take advantage of tight credit spreads to fund increased risk-taking in high yield corporates.
ASSET CLASS	FIXED INCOME	+ Corporate HY					●			Credit risk is stable, but eye on maturity wall in 2024/25.
ASSET CLASS	FIXED INCOME	+ Intl. Developed				●				Avoiding international bonds as global uncertainty credit risk is on the rise.
ASSET CLASS	FIXED INCOME	+ Intl. Emerging Markets				●				Steering clear of the potential volatility in emerging markets debt.
ASSET CLASS	ALTERNATIVE	Hedge Funds					●			Strategies such as global macro, trend following, and fixed income relative value are working well.
ASSET CLASS	ALTERNATIVE	Private Credit						●		Focus on diversification and quality. The risk of rising defaults looms.
ASSET CLASS	ALTERNATIVE	Private Equity					●			Attractive opportunities in equity co-investments and GP-led secondaries.
ASSET CLASS	ALTERNATIVE	Real Estate				●				The slow-motion challenges in commercial real estate have the potential to start having meaningful ripple effects.
ASSET CLASS	ALTERNATIVE	Crypto					●			Bitcoin was the best performing asset class in 2023. Spot ETF SEC approval a potential long-term positive.

Sanctuary Investment Research

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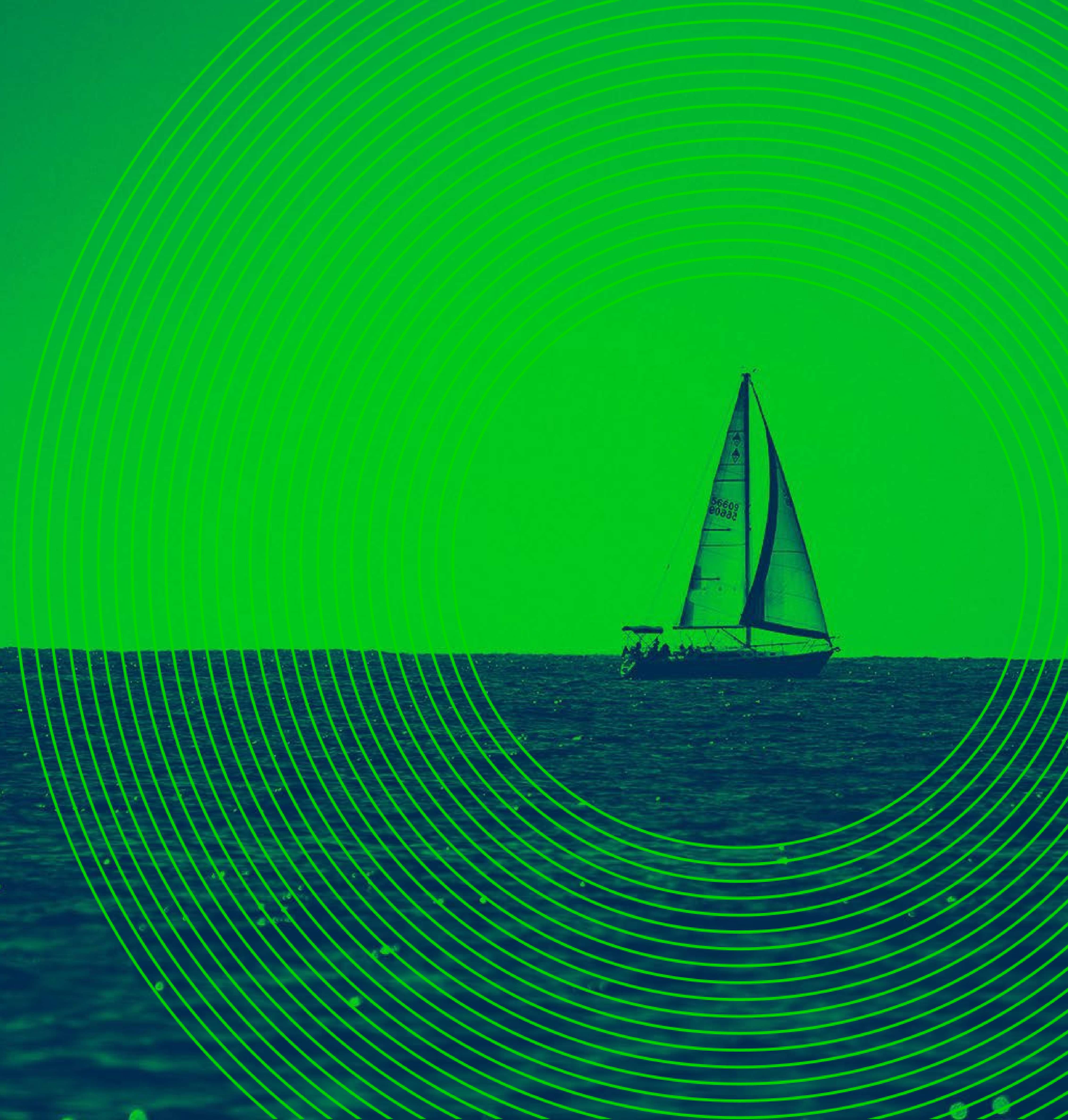


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