SANCTUARY
WEALTH

Sanctuary Investment Council

Investment Outlook
June 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 5600 to 5800, accompanied by anticipated rallies in small-cap stocks, albeit with limited earnings growth. We are expecting a slight pullback over the summer months. In terms of fixed income markets, the SIC retains an up in quality approach paired with a neutral duration position compared to the applicable benchmark.

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 4.0% in May. First quarter GDP was weaker than anticipated at 1.25% annualized. Other economic data remains mixed. Surveys of manufacturing sentiment continue to signal contraction, and the ISM services index has nudged back into expansionary territory. Inflation remains stubbornly elevated, with headline CPI up to 3.3% year-over-year in May, and Core at 3.4%, 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

Mid to longer-maturity treasury yields declined in May as the market digested data suggesting the economy may be slowing and progress towards the Fed's 2% inflation target is underway. Yields on high quality fixed income sectors moved lower as well, which caused core bonds to generate a positive return for May. 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

We are positive on private equity and real assets, while being selective in private credit. We emphasize alternatives for diversification and capturing opportunities in the new macro regime. We recommend shifting allocation towards nominal GDP growth-linked investments and adding non-traditional assets. We see opportunities in productivity, security, and AI-energy intersection. We're bullish on PE, focusing on operational improvement and corporate carve-outs, expecting a strong current vintage. We're cautious on direct lending but view private credit as a permanent allocation. We favor asset-based finance (private credit) and are constructive on real assets, especially infrastructure and energy related to AI demand.

Asset Allocation **Views**

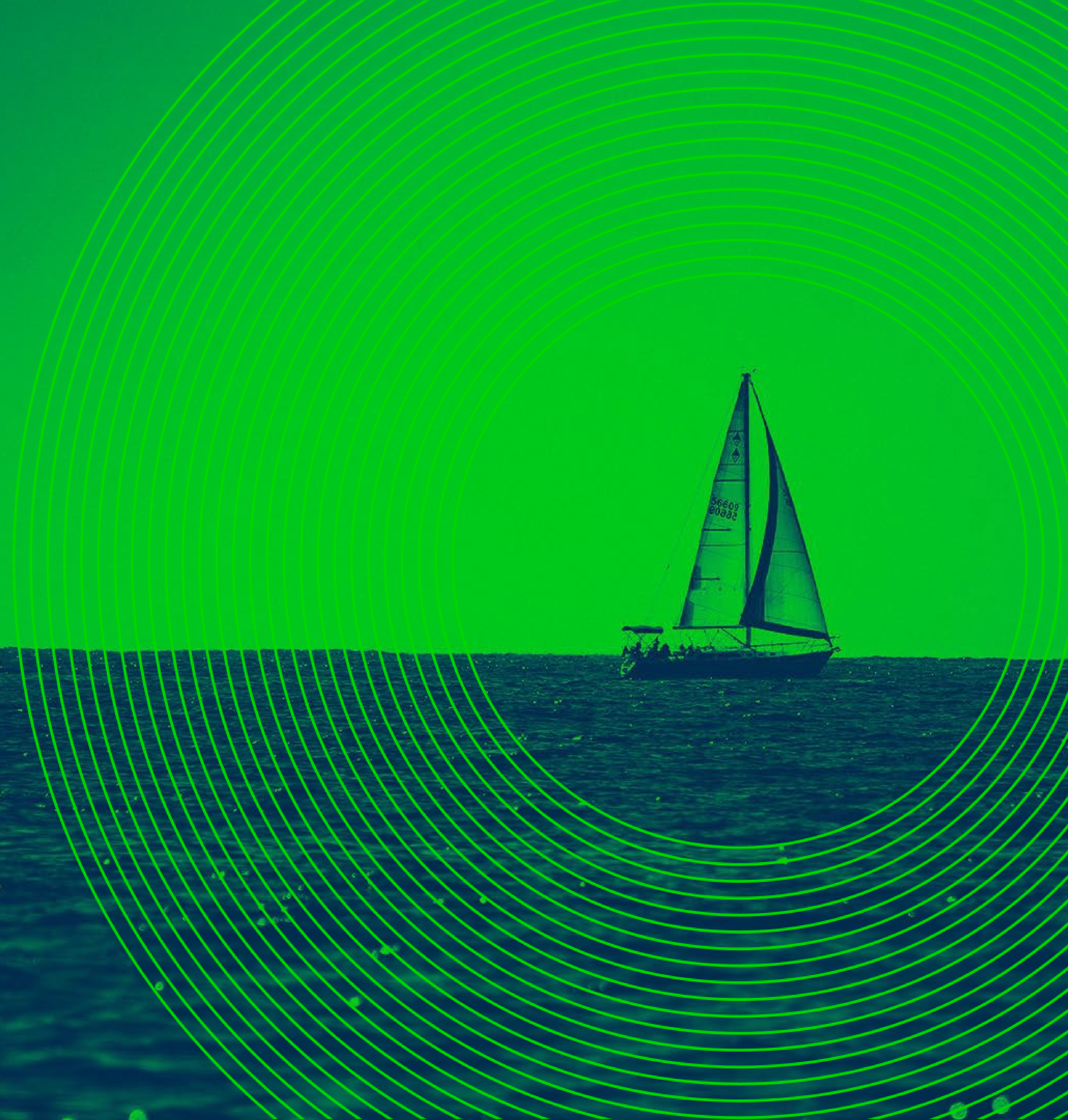
		UW			N	OW				
		Conviction							Change	
BROAD ASSET CLASS	Equities					●				Stronger equity market gains being supported by lower Treasury yields and solid earnings reports.
BROAD ASSET CLASS	Fixed Income			●						Fixed income markets are walking back the expected number of Fed rate cuts.
BROAD ASSET CLASS	Cash				●					Looking to lock in longer maturity investment grade fixed income opportunistically.
ASSET CLASS – EQUITIES	U.S.					●				Lower interest rates and strong earnings are supportive of equity valuations.
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					●				Higher interest rates have seen more flows into relative value and multi-strategy to take advantage of dislocations.
ASSET CLASS – ALTERNATIVE	Private Credit						●			A permanent shift from traditional to nonbank lenders. Consider asset-based finance over direct lending.
ASSET CLASS – ALTERNATIVE	Private Equity						●			Strong entry point into PE due to low market liquidity, LPs have more power to negotiate better terms.
ASSET CLASS – ALTERNATIVE	Real Estate					●			▲	Constructive on real estate credit, asset-based finance, and in infrastructure related AI and data centers.
ASSET CLASS – ALTERNATIVE	Crypto				●					Bitcoin ETF outflow activity is the worst since late April, but halving reduced the rate of new Bitcoin creation 50%.

Sanctuary Investment Research

13501 Galleria Circle
Building W, Suite 230
Austin, TX 78738
(512) 381-6900

For inquiries, please contact:
Laura Anacker - Portfolio Strategist
(609) 613-4093

SAM@sanctuarywealth.com
www.sanctuarywealth.com

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