CONCENTURE
WEALTH MANAGEMENT

SANCTUARY ASSET MANAGEMENT

CIO CORNER

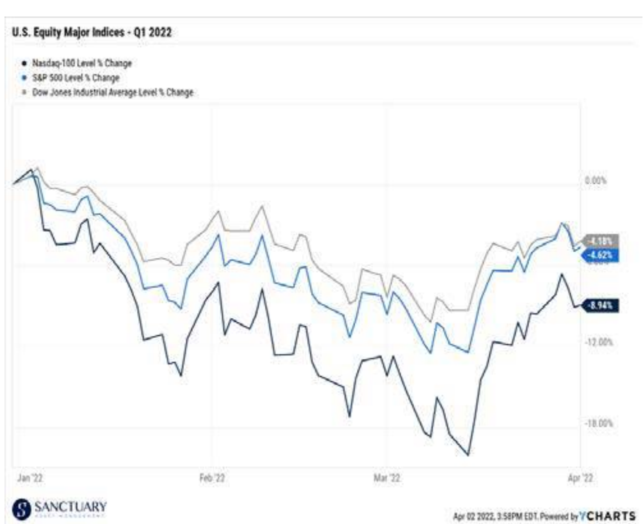
April 2022

After a tumultuous first quarter, U.S. equity buyers ultimately emerged as a persistent slew of headwinds in Q1 coupled with the brazen Russian invasion of Ukraine presented a buying opportunity. Volatility should remain elevated as many of the headwinds in the marketplace are not resolved, but the more than $4T in cash has established a floor in the S&P 500.

Emotions are high and markets remain on the move. Despite a sensational snap-back rally to close the month of March, investors endured the worst quarter in nearly two years. The S&P 500 Index (which closed Q1 still down a little more than 4% ytd) did indeed visit correction territory briefly last month. A correction is a decline of 10% or greater in the price of a security, asset, or a financial market. Corrections can last anywhere from days to months, or even longer. Volatility dipped back into the teens (19 or below) potentially suggesting that April will maybe not be as choppy as the first three months of the year have been.

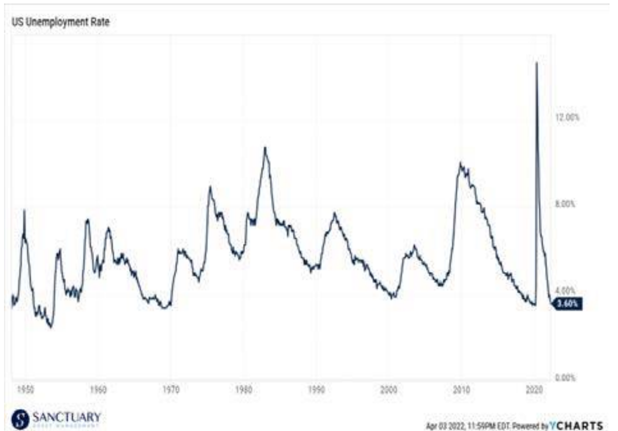
Q1 2022 VIX Index (Fear Gauge)
CBOE S&P 500 Volatility Index Level
36.00 30.00 24.00 19.63 18.00
Jan '22 Feb '22 Mar '22 Apr '22
SANCTUARY
Apr 02 2022, 4:02PM EDT. Powered by YCHARTS

For Q1, the Dow and S&P 500 closed lower 4.6% and 4.9%, respectively. The Nasdaq plummeted 9%. For the 3 major averages, this was the worst period since the first quarter of 2020, which marked the start of the Covid-19 pandemic. Other issues for investors to contend with include the start of a rate hiking cycle from the Federal Reserve, stubborn high inflation, and Russia's invasion of Ukraine. These headwinds all contributed to the volatility for equities this quarter. That being said and with all of that freshly injected volatility included, equity markets have historically been staying true to a typical and skittish start for a mid-term election year. March was a bit of a bright spot though as the major averages enjoyed a solid two-week powerful rally in the back half of the month. The S&P 500 and Nasdaq rose more than 3% in March, while the Dow added 2.2%.



Jobs: The U.S. economy added more than 400,000 jobs in the final month of the first quarter, the Labor Department said Friday. As Covid restrictions eased, rebounds in the leisure and hospitality and business sectors continued last month and helped to drive a strong March jobs report. The March 2022 jobs report showed that the leisure and hospitality industry, which includes hotels, restaurants, and amusement parks, added a net 112,000 jobs. Wages climbed at a rapid pace in the year through March and the unemployment rate dropped notably last month. Wages have picked up by 5.6 percent over the past year, the report showed, a far quicker pace than the 2 to 3 percent

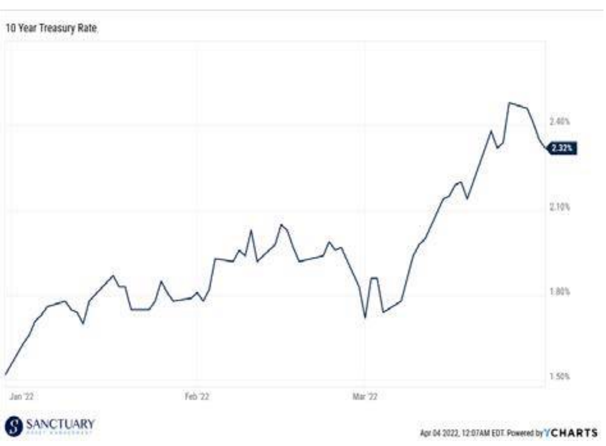
annual pay gains that were typical during the 2010s. At the same time, the jobless rate fell, to 3.6 percent in March from 3.8 percent in February. Unemployment is now just slightly above the half-century lows it had reached before the pandemic.



Fed: At the conclusion of its Federal Open Market Committee meeting back on March 16, the Federal Reserve raised its benchmark interest rate for the first time since 2018, in a step toward combating high inflation. The Fed hiked its rate 25 basis points from near zero and has signaled the potential need for significant further tightening of its monetary policy this year. The rationale for this change in stance (or pivot) for Fed Chairman Powell is to find a way to combat runaway inflation. The moves higher in Treasury yields come amid growing expectations that the Federal Reserve will be forced to be much more aggressive in its tightening cycle.

Fed Chairman Powell has stated, “inflation is much too high,” and emphasized the Fed would continue to raise interest rates until inflation is under control. It seems every week on the financial news channels a new pundit is claiming (or outbidding) a higher number of rate hikes for 2022. Bank of America joined those expecting bigger hikes; The firm expects 50-basis-point hikes in June and July, and 25-basis-point hikes at all other meetings this year. According to the CME FedWatch Tool, the probability is now better than 70% that the Fed reaches 2.25% by the end of the year. My prudent and opposing view is that the Fed will not need to be as Hawkish (raise rates as much is being priced in) due to inflation starting to abate. I am optimistic that inflation will come down as our U.S. economy reopens with Covid-19 firmly in the rearview mirror. I do believe we will see a persistent 25 bps rate hike at each and every Fed meeting for the next 3-4 meetings. That would potentially tally the hikes somewhere between a total of 1.00-1.25% for 2022.

U.S. Treasuries: The 10-year note yield jumped dramatically higher the first quarter of the year as inflation expectations have soared and traders have quickly repositioned as the expectations for rate hikes similarly climbed in a rocket-like fashion. One week in March, the yield on the 10-year Treasury note surged roughly 35 basis points to 2.50%, the largest weekly increase since September 2019, according to Dow Jones Market Data. (The yield started that specific week near 2.15%.) That’s also the highest yield for the 10-year note since May 6, 2019.



Russian War Crimes: Ukrainian officials said they have asked the International Criminal Court (ICC) to visit the mass graves seen in Bucha, a suburb northwest of Kyiv, so experts can gather evidence of possible Russian war crimes. Journalists have posted photos from the area and disturbing footage posted by Ukrainian officials detailed what was found there as Russian forces retreated. Our Secretary of State Anthony Blinked stated that the United States believes that Russian has committed war crimes.

Gold: Gold continued to attract investors’ attention in Q1 of 2022. Gold slowly edged higher as inflation risks and the intensifying Ukraine crisis propped up demand for this good old-fashioned safe haven. The gold market closed the first quarter with the best gains since Q3 2020, when the precious metal was in very high demand and scored new record highs of above $2,060 an ounce.

Earnings: Earnings seasoned is poised to kick-off as JP Morgan reports on 4/13. I anticipate buybacks to be a strong undercurrent once again this reporting season. Companies in the S&P 500 bought a record amount of their own stock last year and don’t show any signs of slowing down. Awash with cash from solid earnings, companies repurchased $882B of stock in 2021. Goldman Sachs is forecasting stock buybacks to reach $1T in 2022, even as companies wrestle with rising inflation, higher interest rates and the potential for dislocated economic growth.

Balance Sheet: The Fed's asset portfolio, sometimes referred to as its balance sheet, has more than doubled since March 2020. The Fed bought nearly $1.5 trillion in Treasuries in March and April 2020 to prevent disaster in the market for U.S. government debt which nay have ignited a broader financial meltdown when the Covid-19 pandemic triggered a dash for dollars.

Sector Selection: Having the ability to select certain sectors of the S&P500 once again proved valuable in the first quarter. Ten out of 11 sectors finished in the red in Q1. Energy (+39%) had its best quarter since its inception in 1989 on the back of rip-roaring oil and gas prices. The defensive Staples (-1%) held up relatively well, as did the rate-sensitive Financials (-1%). Communications (-12%), Discretionary (-9%), and Technology (-8%) underperformed the most by the end of Q1 and saw the biggest drawdowns. The top performer in March was Utilities (+10%) which in the final two weeks of the quarter made a "bullish breakout" above a major high from February 2020.

Sector	Change
S&P 500 Index	+0.34%
Communication Services XLC	+0.74%
Consumer Discretionary XLY	+0.12%
Consumer Staples XLP	+1.00%
Energy XLE	+0.81%
Financials XLF	-0.26%
Health Care XLV	+0.79%
Industrials XLI	-0.78%
Materials XLB	+1.06%
Real Estate XLRE	+1.99%
Technology XLK	-0.30%
Utilities XLU	+1.40%

Select Sector SPDR ETFs

POSITIONING FOR APRIL

April, which kicks off Q2 2022, will be critical in determining if the floor in U.S. equities is established for the year. I believe that the floor is in for 2022. The volatile price discovery mode that pushed stock prices uniformly lower in Q1 should not be retested in coming quarters. Although there were (and still are) a variety of concerns, some of the $4.5T in cash waiting on the sideline was deployed on this most recent pullback. Bearish sentiment spread like wildfire during the uncertainty surrounding Russia and President Putin's plan to invade Ukraine. Equity investors were forced to endure what will most likely be the low point when the S&P 500 breached 4200. As April begins, the Russian invasion into Ukraine seemingly does not have a truce or an end in sight. I do not expect volatility to go into hibernation in Q2 but, my expectations are that this earnings season will deliver strength to shareholders all the while geo-political tensions will hopefully simmer.

In closing, I think the volatile environment has presented an opportunity to rebalance portfolios. Re-balancing model portfolios presents a consistent opportunity. In theory, when a portfolio "rebalance" takes place; an investor is seeking to harvest winners and also reinvest in losers. Thus, it's a constant sort of contrarian disciplined rebalancing that potentially adds value over time. Also, owning essential and or "blue-chip" names continues to provide diversification as the wrestling match between growth and value seems far from over.

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