CONCENTURE
WEALTH MANAGEMENT

Concenture Corner

Robert Gilliland
Managing Director

April 2024

Executive Summary

After a particularly strong first quarter, the equity market is already in a correction, in our view. We continue to believe the S&P 500 can reach 5600-5800, for an additional uptick of 9%-13% from the market close of Friday, April 12. We see the Technology and Artificial Intelligence related industries as continuing to be the market's leadership and the strongest drivers of returns. We believe any correction should be limited to 5–10%.

The risks to this scenario are that (1) the Federal Reserve does not cut interest rates this year, and (2) oil rises above $100 per barrel. The problem with oil is compounded by military action in the Middle East, but so far, that may be contained: Iran said it had "no intention to continue," Israel replied that it would respond "in a way and time that suits Israel." Iran waited to attack, and Israel and its Western allies took down nearly all the attacking missiles and drones.

Long-Term Strategy

Aligning with many vocal business leaders, we concur that the explosion of artificial intelligence (AI) will impact and transform virtually everything in our lives. In his latest letter to shareholders, JPMorgan Chase CEO Jamie Dimon said: "We are completely convinced the consequences will be extraordinary and possibly as transformational as some of the major technological innovations of the past several hundred years. Think the printing press, the steam engine, electricity, computing and the internet among others."

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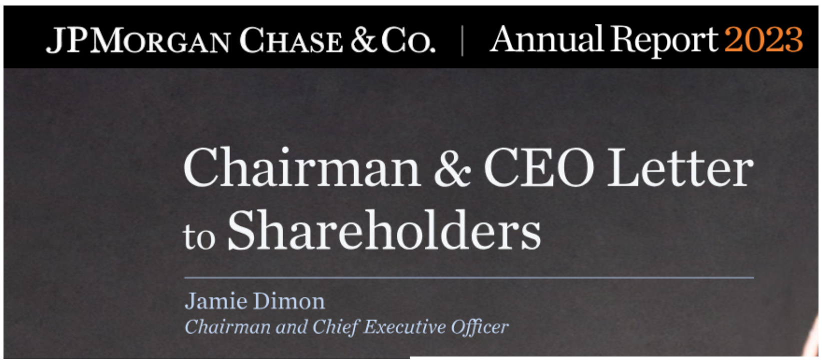

JPMORGAN CHASE & CO. | Annual Report 2023

Chairman & CEO Letter to Shareholders

Jamie Dimon
Chairman and Chief Executive Officer

Update on Specific Issues Facing Our Company

Each year, I try to update you on some of the most important issues facing our company. First and foremost may well be the impact of artificial intelligence (AI).

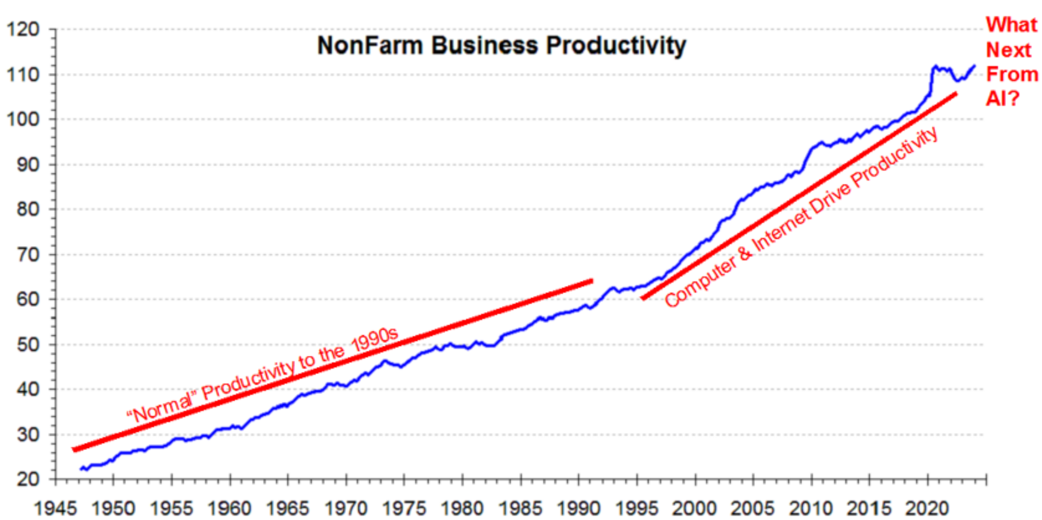
While we do not know the full effect or the precise rate at which AI will change our business — or how it will affect society at large — we are completely convinced the consequences will be extraordinary and possibly as transformational as some of the major technological inventions of the past several hundred years: Think the printing press, the steam engine, electricity, computing and the Internet, among others.

THE CRITICAL IMPACT OF ARTIFICIAL INTELLIGENCE

Source: https://reports.jpmorganchase.com/investor-relations/2023/ar-ceo-letters.htm, April 8, 2024

Just as semiconductor chips are included in nearly every device we use today, from automobiles and airplanes to household appliances and even light bulbs, AI will increasingly be built into nearly every device in coming years. This will improve the efficiency not only of such products, but in their development, manufacturing, and the infrastructure that supports them.

A New Productivity Regime May Be Beginning, With Higher Productivity Growth



Source: Bureau of Labor Statistics, Sanctuary Wealth, April 10, 2024

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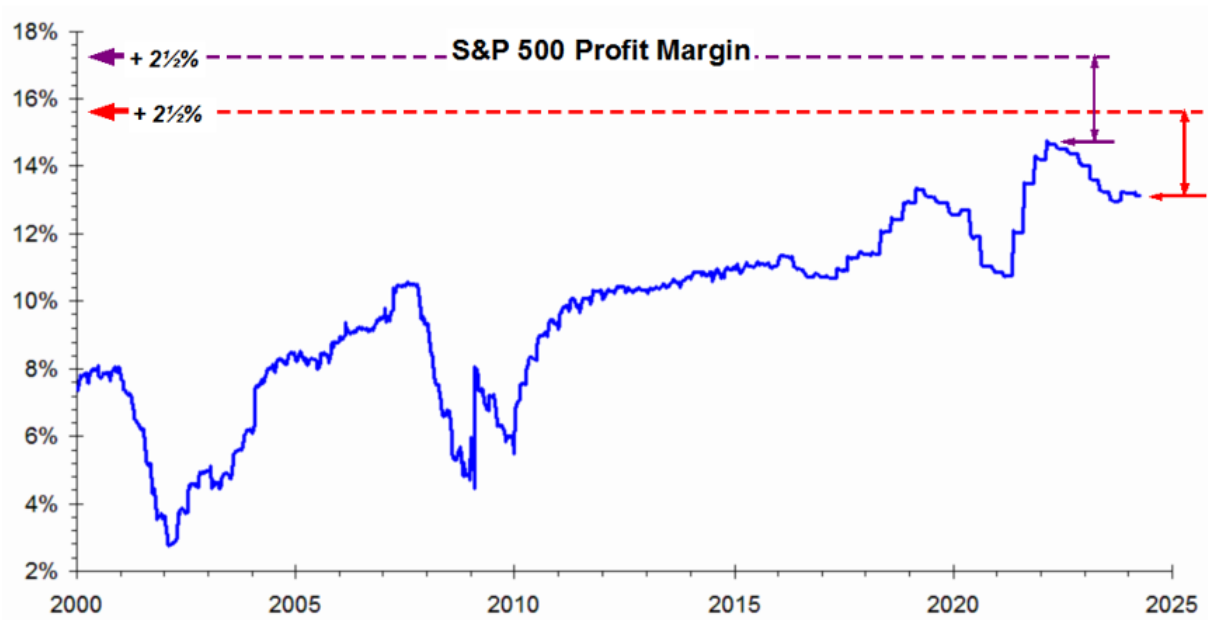
A jump in productivity growth should result in higher returns to capital, just as jumps in productivity resulted in higher returns to capital during the Industrial Revolution due to faster and more efficient production of goods, and the initial integration of computers and the internet from the 1990s until now due to faster and more efficient flows of information.

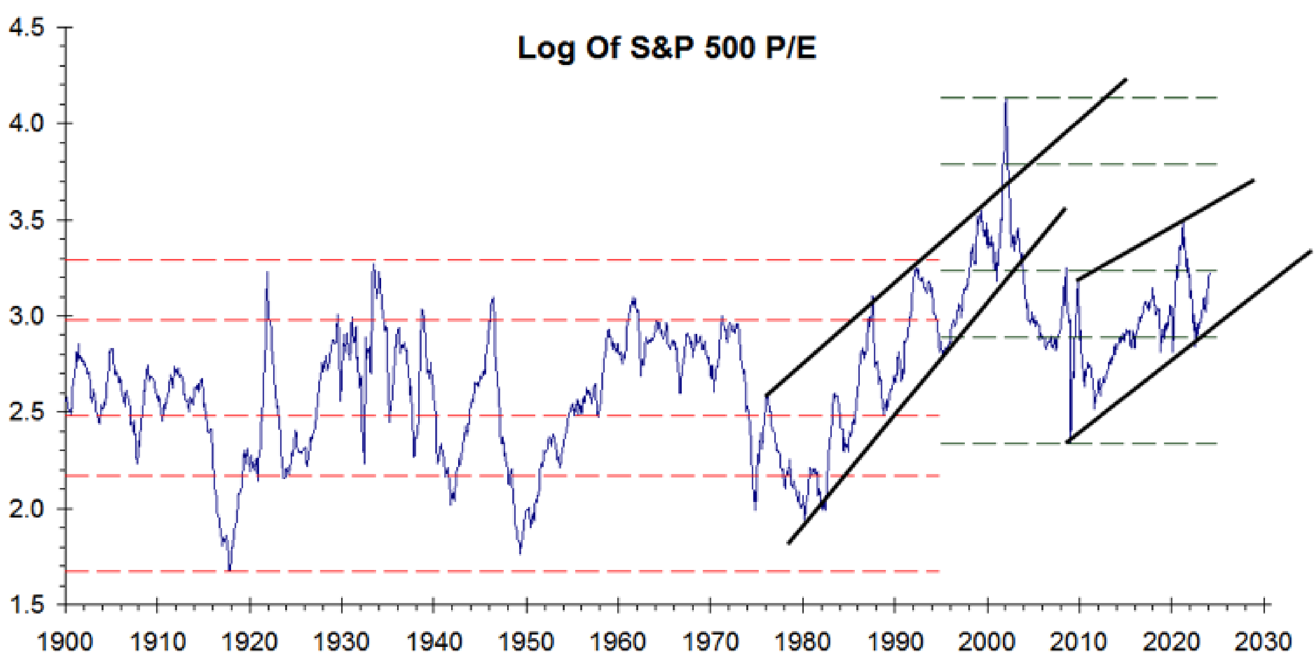
As shown in the accompanying chart, analysts at Bank of America are estimating that corporate operating margins will improve by 250 basis points, driving cost savings of $65 billion annually. This should be an important driver of increased corporate profits. Such an increase in profit margins would also support higher P/E ratios.

An Extra 250 Basis Points In Profit Margins Would Be A Significant Gain



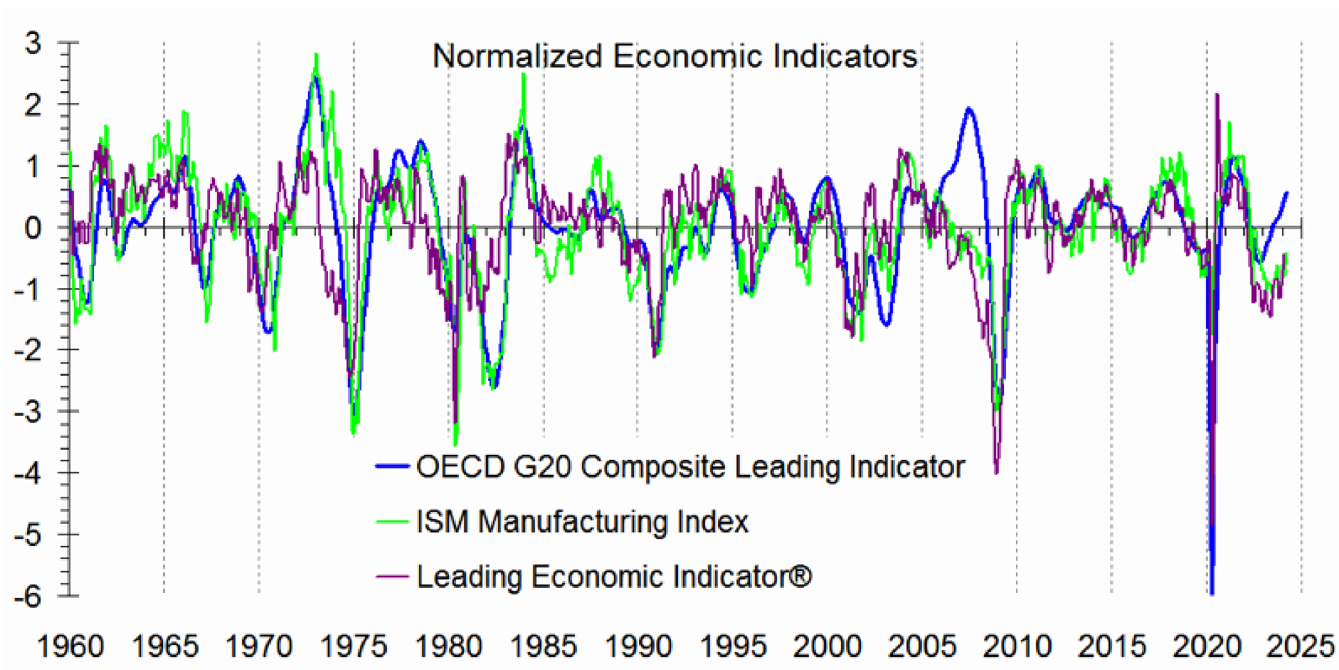
Source: Bloomberg, Sanctuary Wealth, April 10, 2024

We Think Higher Profit Margins Could Support Higher Price/Earnings Ratios



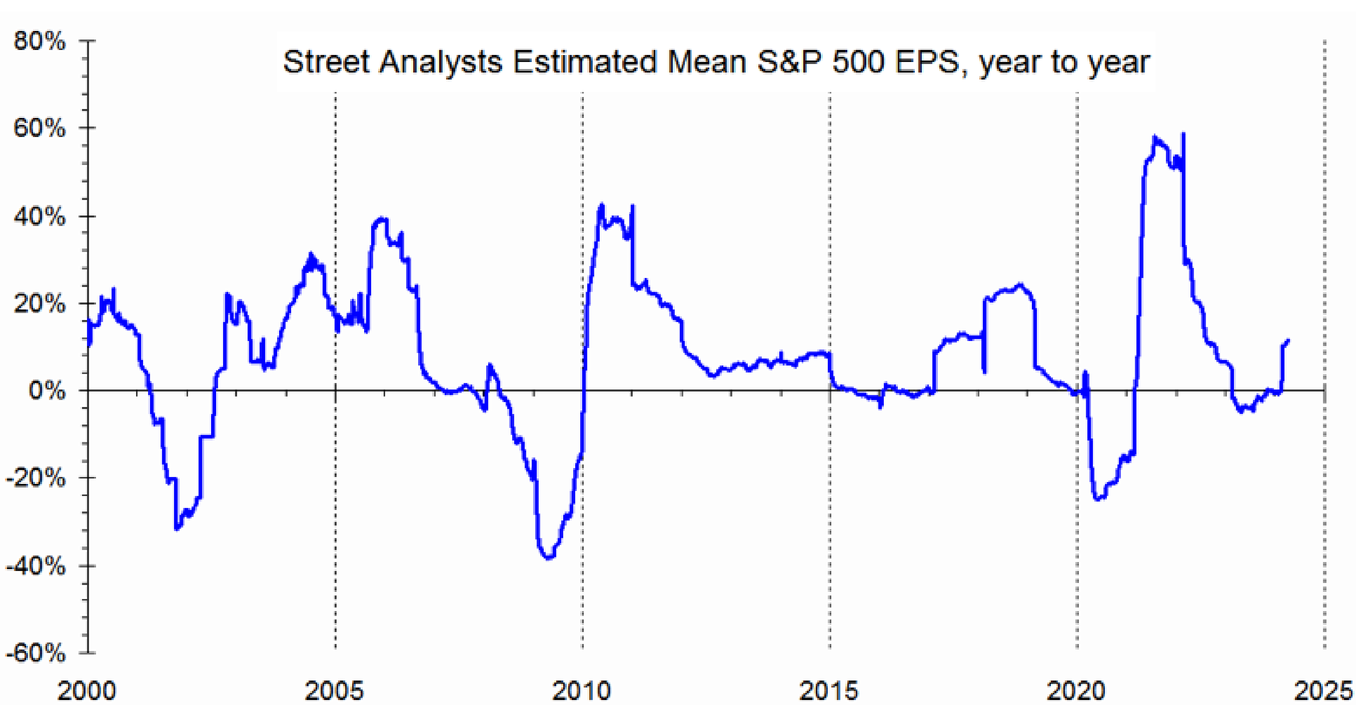
Source: Bloomberg, Sanctuary Wealth, April 6, 2024

Economic Growth Is Expanding Around The Developed World



Source: Organisation for Economic Co-operation and Development, Institute for Supply Management, The Conference Board, Sanctuary Wealth, April 6, 2024

Earnings Estimates Are Rising – Highly Correlated To Direction Of Stock Prices



Source: Bloomberg, Sanctuary Wealth, April 6, 2024

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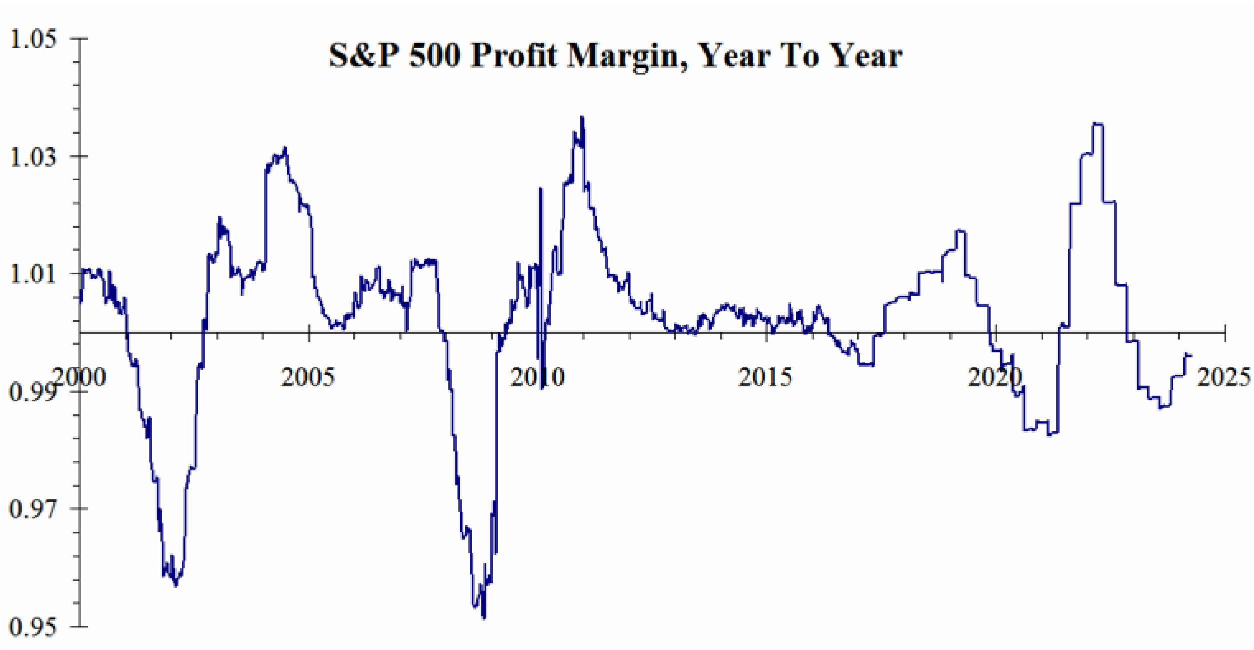
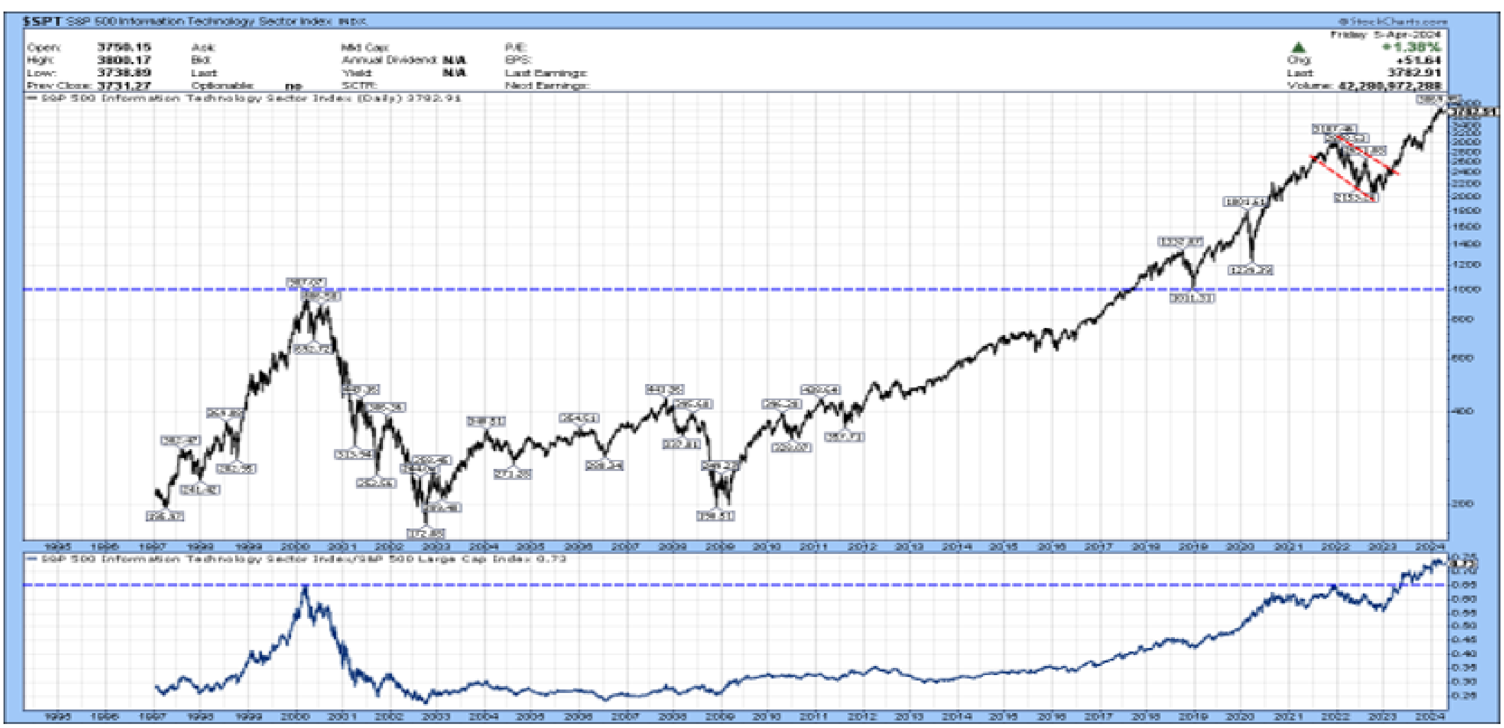
Profit Margins Have Bottomed And Appear Ready To Grow



Source: Bloomberg, Sanctuary Wealth, April 6, 2024

Leadership In The Equity Market Is The Technology Sector Driven By AI

S&P Technology Sector (Top) With Relative To The S&P 500 (Bottom)



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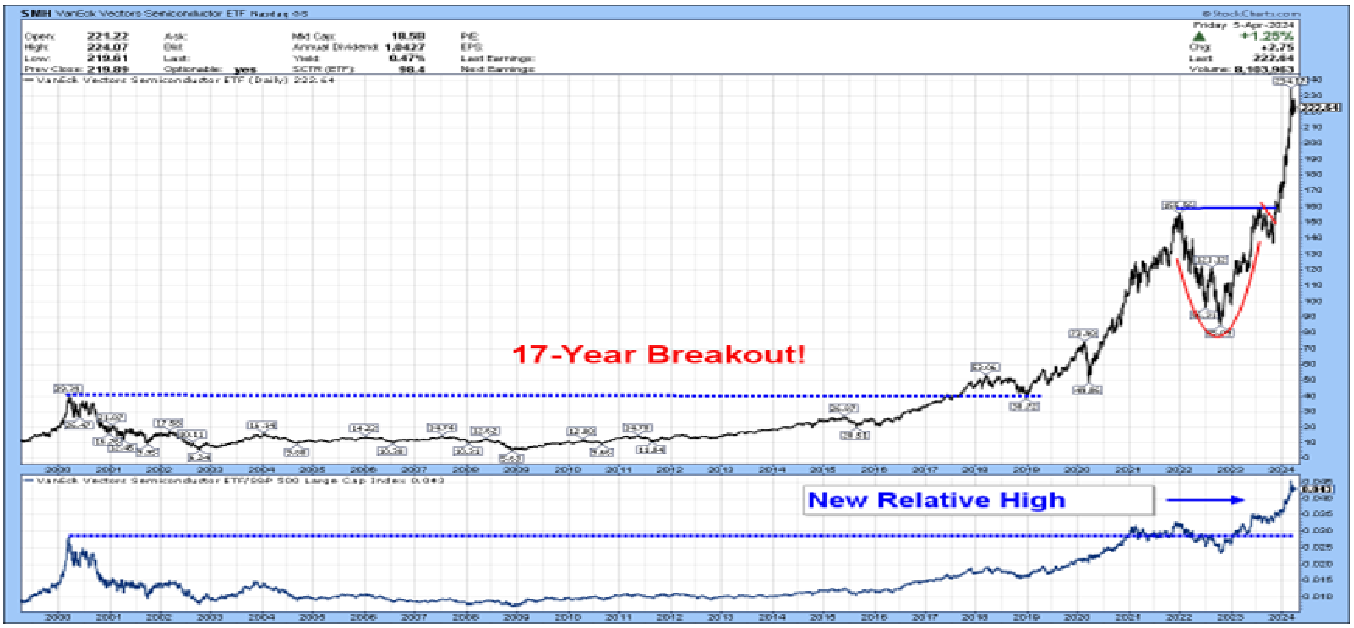
Within Technology, Semiconductor stocks have attracted the strongest investment flows: These companies are producing the products that make the advancements in productivity possible. The leader of this move has been Nvidia (NVDA), the company that has taken first place in pioneering high performance chips and the programming interfaces to make them run efficiently. These devices and software are the very tip of the AI spearhead.

VanEck Semiconductor (SMH) Strong After Long Bottom (Top), Breaking Out In Relative Price (Bottom)



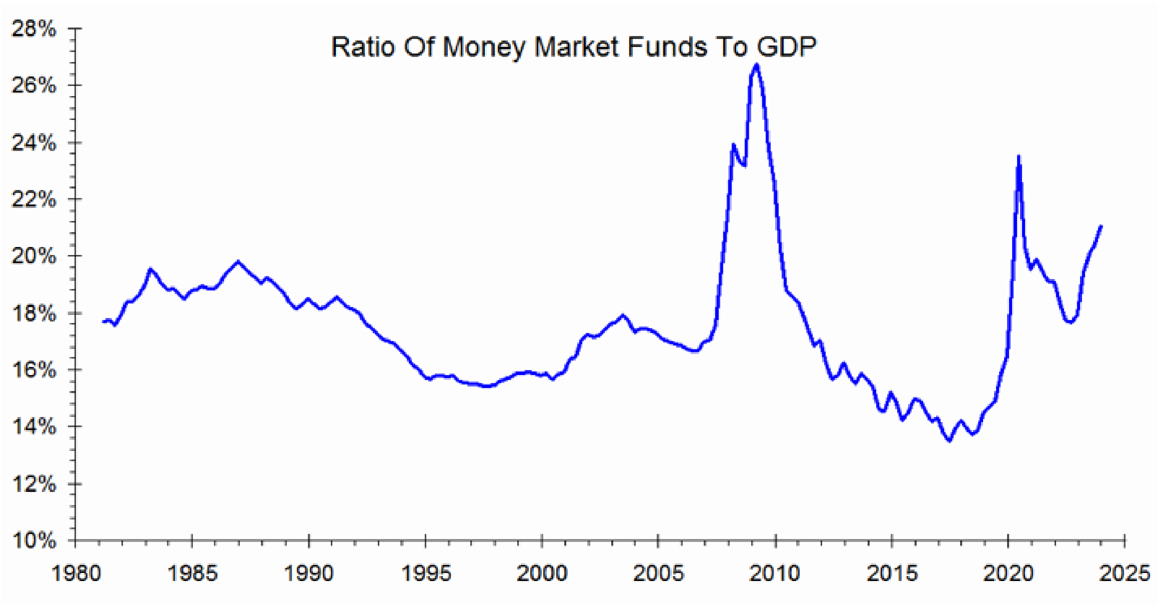
New artificial intelligence companies are expected to come to the public market as well. Remember today's market leaders in AI are the very stocks that came to market in the 1980s and 1990s and have now matured.

NYSE Executive Says 'Handful' of AI Startups Are Exploring IPOs

- Interest comes as market for tech listings begins to pick up
- AI startups have raised billions from private markets

Source: Bloomberg, April 10, 2024 https://www.bloomberg.com/news/articles/2024-04-09/nyse-exec-says-handful-of-ai-startups-are-exploring-ipos

There Is Considerable Liquidity Available For Investment Into The Equity Market



Source: Federal Reserve, Bureau of Economic Analysis, Sanctuary Wealth, April 10, 2024

While many investors have compared the current market bull run to the 1995-2000 period, we believe the chart pattern of the 1920s seems more like the pattern we see today. Remember: patterns may repeat, but they are never exactly the same. Why do we think the current pattern resembles the Roaring '20s? When we look at the Dow Jones Industrial Average (DJIA) from 1886-1934, we see a trading range for 25 years, lasting from 1900-1925. This led to a rally beginning in 1925 and peaking in 1929. More recently, the Nasdaq 100 had a trading range for 17-years and broke out in 2017. We believe that, based on these trading patterns, we are still in the early stages of the current rally and not near a peak. If that is correct, we should have several more years of this move. Based on the long-term secular cycles, the current bull run can last until 2029-2030. If this is a bubble cycle, we are still only in the early stages, in our view. Valuations and earnings support this market rally as well. As we've noted in the past: in secular bull markets, valuations expand. We believe before this bull market ends, valuations could go to levels last seen in 2000 and could even surpass them.

Ample Liquidity And Increases In Productivity Powered The Dow Jones In The 1920s

Dow Jones Industrial Average 1886-1934

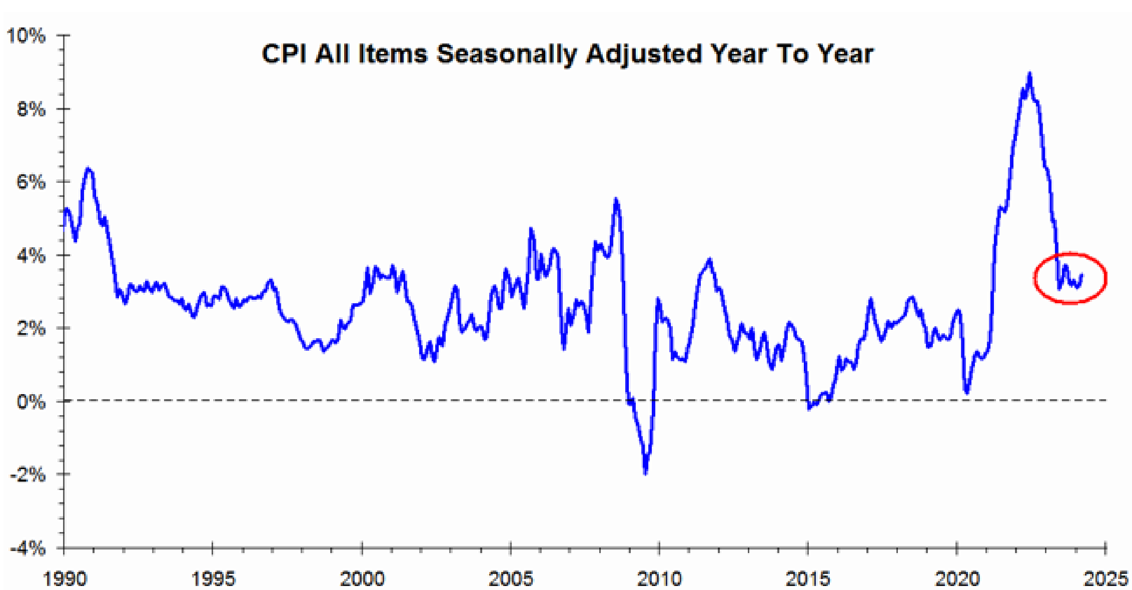
Ample Liquidity And Increases In Productivity Are Powering The Nasdaq 1000

Nasdaq 100 Index From 1990-Present

Treasury Yields Shocked By Sticky Inflation Numbers

Treasury yields were shocked on Wednesday, April 10, by the release of CPI (Consumer Price Index) data that showed inflation to be sticky. Last month CPI was reported at 3.2% year-over-year; analysts anticipated March CPI would be 3.4%; but the Bureau of Labor Statistics reported March CPI at 3.5%. The difference is small, but the effect was large.

CPI Has Moved Sideways Instead Of Down



Source: Bureau of Labor Statistics, April 10, 2024

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10-year Treasury yields rose 183 basis points to 4.528%. This is quite a jump, but we note that there appears to be an upper and lower channel in the rising rates that have been in place since December. If that's correct, the 10-year Treasury has simply moved from the lower channel into the upper channel. We currently measure the top of the upper channel at 4.72%, the midpoint at 4.49%, and the bottom of the lower channel at 4.29%.

10-Year Treasury Yields Seem To Be Rising In A Two-Tiered Channel

Short Rates High With Sticky Inflation

2-Year Treasury Yield: Remains Elevated

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We aren't alarmed at the rise in yields, nor are we taken aback by the market's changed expectation of how many rate cuts there might be this year and their timing. Fed Speak in the first half of April strongly reiterated that the number of cuts and even their likelihood should be managed downward. Our risk position would be no rate cut this calendar year, and so far, that seems still an unlikely scenario: the market is currently pricing in two rate cuts by the end of January 2025, with the first coming in September. At the beginning of this year, the market thought the first rate would take place at the Federal Open Market Committee (FOMC) meeting on March 20, and there would be as many as seven cuts by January of next year. The expectation of cuts allowed the market to rally over 28% from its October 2023 lows through the end of March 2024. This is a good example of the old adage, "Buy the rumor, sell the fact." Investors bought the rumor that there would be seven rate cuts this year — and now they're nervous that there may be only two rate cuts. Rates and rate cuts aside, we believe the economy is growing, earnings are growing, and profit margins are likely to expand because of AI.

The S&P 500's Unbroken Run Hits A Wall With End-Of-Quarter Window Dressing

April Showers With Occasional Thunderstorms

The stock market has had a remarkable 5½ month run without a significant break of more than 2.5%. The move over the past three months shows a distinctive run, a run broken on April 2, right after the end of the quarter. When strong quarters close, they are often accompanied by "window dressing," where professional investment managers try to make sure their quarterly reports include the top performing stocks of the quarter. Often these moves are, in turn, followed by profit-taking by winning traders locking in their gains at the beginning of the next quarter. This recurring pattern seems to have happened as we transitioned from the end of 1Q24 into April. (If you look closely, you'll see it happened at the end of 4Q23, another strong quarter.)

Markets can correct by selling off, or they can correct over time. Sell-offs usually happen quickly, while corrections over time tend to wander in a sideways direction. These different ways are normally accompanied by different patterns in volume, too: sell-offs are usually punctuated by sudden, sharp increases in trading volume, while sideways markets are normally accompanied by falling trading volume.

Unless investors sense that economic growth is about to slow, and with it, earnings growth, any sell-off is likely to prove to be short-lived: an opportunity to take new positions for future growth.

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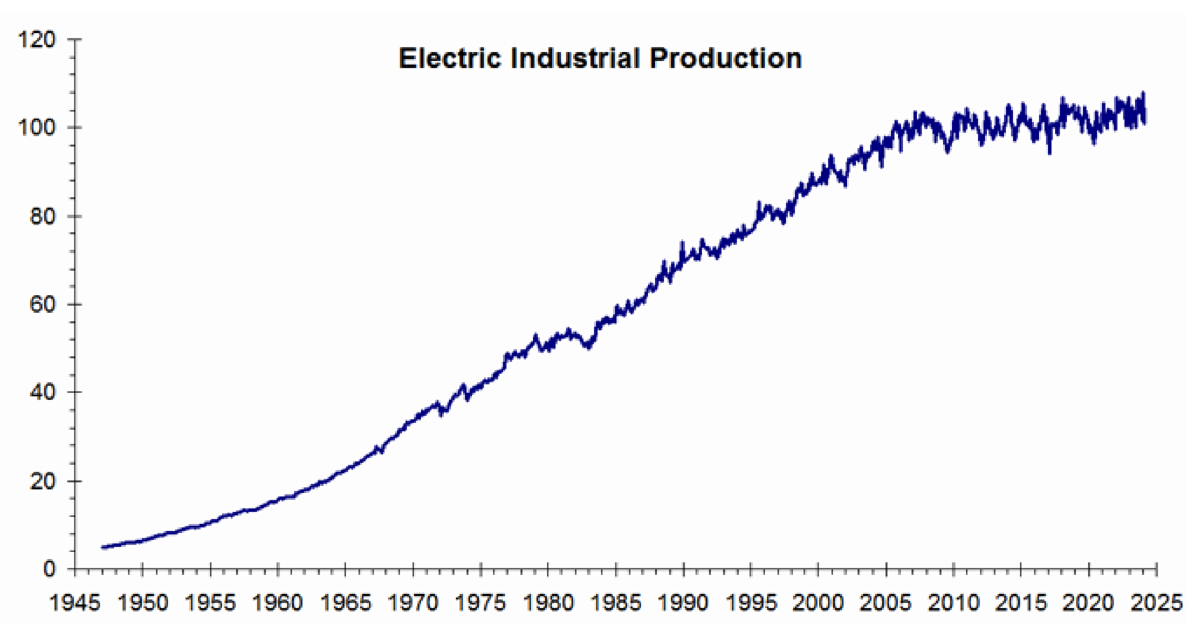
Dr. Copper - The Metal With A Ph.D. In Economics

Copper's importance in electricity production and delivery cannot be overemphasized. But there has been no rising demand for electricity for decades: electricity cannot be stored and must be used and consumed as it is manufactured.

Copper Is Rising But Has Not Yet Broken To New Highs

Demand for electricity has been essentially flat for nearly two decades. It grew exponentially from the 1940s until the early 1970s, then at a more or less constant rate until about 20 years ago. Since that time, electricity demand has appeared flat.

Electricity Production Appears To Have Been Flat For Twenty Years



Source: Federal Reserve, April 9, 2024

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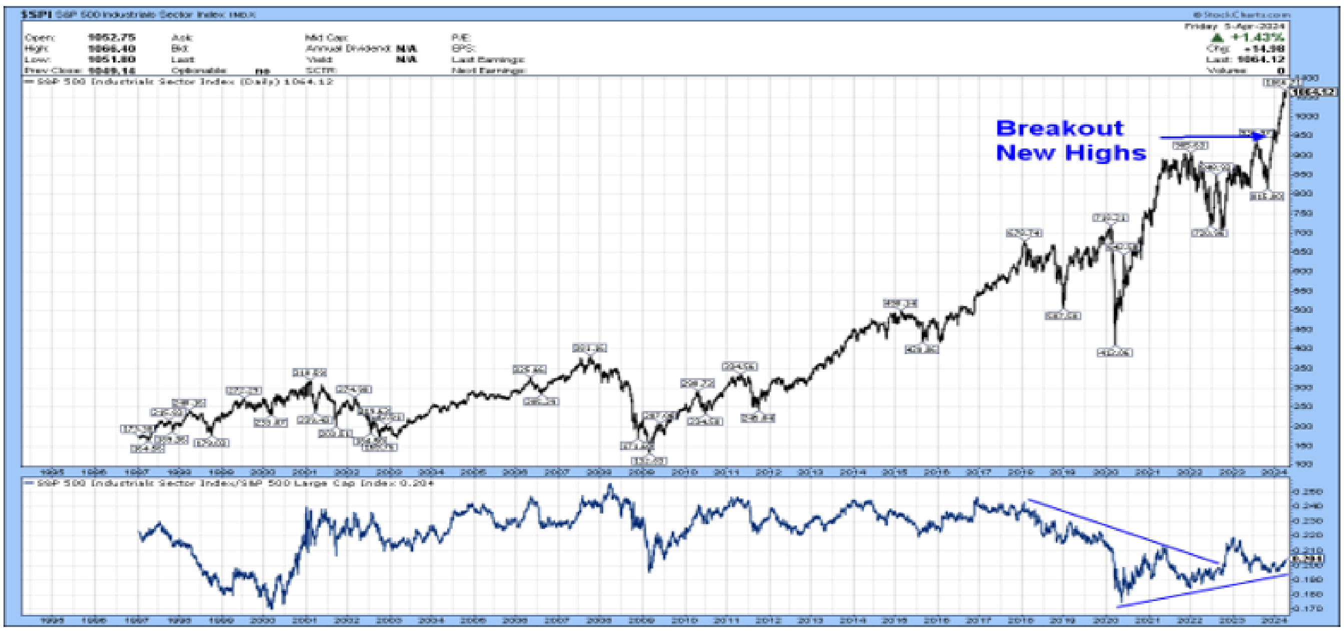
Demand for electricity may begin to expand again as firms building and training machines for AI require more and more electric power. Many firms have begun to build their own, dedicated electric power generators to fill the gap in demand that regulated utility companies cannot yet meet. This demand is part of what is driving an uptick in Industrial stocks. Blockchain calculations for Bitcoin and other cybercurrencies, as well as other applications of blockchain – for instance, smart contracts, personal identification, the internet of things (IoT) – consumed more electricity in 2022 than the entire nation of Austria and has only expanded since then. In addition, a national shift in the U.S. to EV cars would require substantial improvements to the electric grid.

The S&P 500 Industrials Index Is Making New Highs

S&P Industrials (Top) With Relative To S&P 500 (Bottom)



Energy Stocks Are Attempting To Break Out

Demand for electric power cannot be immediately met by regulated utilities: our understanding is that many firms are building their own power facilities. Many of these use gas-fired electric generation. In addition, heightened tensions in the Middle East have resulted in disruptions in crude oil transportation and risks to smooth production. The war in Ukraine has disrupted Russian oil refining, and while there is an embargo on Western purchases of Russian oil and gas, many countries in Asia have chosen to ignore the embargo. Reduced supply from Russia puts pressure on supply from other sources. Energy has several reasons to rally.

Energy Stocks Are Testing Their Highs

S&P 500 Energy (top) With Relative To S&P 500 (bottom)

West Texas Intermediate (WTI) Crude Oil Prices Could Rally To $95 Risk to $100

Positioning

We continue to prefer Growth over Value. The reason? Growth stocks generally surpass value stocks in periods when earnings are less abundant. Technology and Tech related companies continue to dominate the earnings of the market. As technology permeates every facet of the global economy, it creates investment opportunities in all sectors driven by the advancement of new technologies. Take Communication Services, for instance, which incorporates numerous other technologies - such as voice recognition, GPS, which is now ubiquitous, and soon artificial intelligence - increasingly adopted throughout the economy.

Growth Vs. Value Has A Long Bottom And Is Testing Its Relative Highs

We favor Cyclicals over Defensives, as cyclical stocks generally perform better than defensive ones with a growing economy and strong bull market. The consumer has also remained resilient with net worth reaching a record high, and cash levels are also at record highs. The consumer has been selective but is still purchasing particularly on hospitality and leisure.

Rising interest rates present an opportunity to extend the duration in portfolios, and we maintain our recommendation to ladder maturities given the long-term trend of increasing interest rates. Overall, our emphasis remains on prioritizing Quality.

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Market Performance

	Last 4/12/2024	Month End 3/29/2024	Month to Date	Quarter End 3/29/2024	Quarter to Date	Year End 12/29/2023	Year to Date	Year Ago 4/13/2023	Year To Year
S&P 500	5123.41	5254.35	-2.5%	5254.35	-2.5%	4769.83	7.4%	4146.22	23.6%
NASDAQ Composite	16175.09	16379.46	-1.2%	16379.46	-1.2%	15011.35	7.8%	12166.27	33.0%
NASDAQ 100	438.27	444.01	-1.3%	444.01	-1.3%	409.52	7.0%	319.17	37.3%
Russell 2000	2003.17	2124.55	-5.7%	2124.55	-5.7%	2027.07	-1.2%	1796.68	11.5%
S&P Consumer Discretionary Sector	1447.58	1485.49	-2.6%	1485.49	-2.6%	1418.09	2.1%	1142.93	26.7%
S&P Consumer Staples Sector	782.99	814.23	-3.8%	814.23	-3.8%	762.32	2.7%	790.06	-0.9%
S&P Energy Sector	734.96	721.24	1.9%	721.24	1.9%	640.05	14.8%	669.04	9.9%
S&P Financial Sector	666.45	701.32	-5.0%	701.32	-5.0%	626.35	6.4%	541.30	23.1%
S&P Health Care Sector	1618.87	1723.97	-6.1%	1723.97	-6.1%	1590.36	1.8%	1580.81	2.4%
S&P Industrials Sector	1040.47	1066.71	-2.5%	1066.71	-2.5%	964.73	7.9%	846.09	23.0%
S&P Information Technology Sector	3774.45	3821.05	-1.2%	3821.05	-1.2%	3397.16	11.1%	2612.33	44.5%
S&P Materials Sector	566.21	585.16	-3.2%	585.16	-3.2%	539.62	4.9%	513.11	10.3%
S&P Real Estate Sector	233.47	248.16	-5.9%	248.16	-5.9%	251.58	-7.2%	233.52	0.0%
S&P Communications Sector	289.83	284.29	1.9%	284.29	1.9%	246.00	17.8%	196.57	47.4%
S&P Utilities Sector	326.08	333.49	-2.2%	333.49	-2.2%	321.92	1.3%	353.91	-7.9%
S&P 500 Total Return	11139.38	11418.03	-2.4%	11418.03	-2.4%	10327.83	7.9%	8875.65	25.5%
3 month Treasury Bill Price	98.66	98.66	0.0%	98.66	0.0%	98.66	0.0%	98.75	-0.1%
3 month Treasury Bill Total Return	247.71	247.21	0.2%	247.21	0.2%	243.98	1.5%	235.01	5.4%
10 Year Treasury Bond Future	108.69	110.80	-1.9%	110.80	-1.9%	112.89	-3.7%	115.45	-5.9%
10 Year Treasury Note Total Return	286.17	291.09	-1.7%	291.09	-1.7%	294.12	-2.7%	293.84	-2.6%
iShares 20+ Year Treasury Bond ETF	90.29	94.62	-4.6%	94.62	-4.6%	98.88	-8.7%	106.05	-14.9%
S&P Municipal Bond Total Return	270.91	272.69	-0.7%	272.69	-0.7%	272.94	-0.7%	266.85	1.5%
iShares S&P National Municipal Bond NAV	106.57	107.42	-0.8%	107.42	-0.8%	108.42	-1.7%	108.39	-1.7%
S&P 500 Investment Grade Corporate Bond Total Return	445.83	453.46	-1.7%	453.46	-1.7%	455.89	-2.2%	438.09	1.8%
S&P Investment Grade Corporate Bond	89.10	90.59	-1.6%	90.59	-1.6%	91.76	-2.9%	90.67	-1.7%
S&P Investment Grade Corporate Bond Total Return	474.33	481.59	-1.5%	481.59	-1.5%	482.66	-1.7%	462.80	2.5%
SPDR Bloomberg High Yield Bond ETF	93.44	95.20	-1.8%	95.20	-1.8%	94.73	-1.4%	92.61	0.9%
iShares iBoxx High Yield Corporate Bond ETF	76.37	77.73	-1.7%	77.73	-1.7%	77.39	-1.3%	75.42	1.3%
Gold	2344.37	2229.87	5.1%	2229.87	5.1%	2062.98	13.6%	2040.22	14.9%
Bitcoin	67127.64	69654.16	-3.6%	69654.16	-3.6%	41935.34	60.1%	30285.33	121.7%

Source: Bloomberg, Sanctuary Wealth, April 12, 2024

Last Words

While the Fed remains data-dependent, and the markets are fixated on the likelihood and timing of possible interest rate cuts, we remain optimistic about the remainder of 2024.

Despite ongoing wars in Ukraine and Gaza and the specter of increased threats to Middle East stability – and despite the highest U.S. deficit in history with high costs of funding this debt – we don't see any of these factors negatively impacting asset classes in 2024. It's a Presidential Election Year, which historically delivers positive equity returns when the incumbent runs.

And with the global Digital Economy being driven by Artificial Intelligence, we believe the Bull will keep charging ahead – just bucking from time to time when inflation data surprises the markets.

Risks

Let us revisit two risks we can currently see to our outlook for 2024:

1. There are no interest rate cuts at all by the Federal Reserve during the year, and
2. Oil prices cross $100 per barrel and stay there. This being the biggest risk to a deeper decline in equity markets.

Markets will be straddled for some time with both concerns over military actions in the Middle East (heightening the risk of $100 per barrel oil), and further disruptions in international trade as attacks on shipping continue in the Red Sea impacting key access to the Suez Canal. So far, these actions have not matured into full-blown warfare between Israel and Iran. Iran said it had "no intention to continue." Israel stated that it would respond to the attacks "in a way and time that suits Israel." Referring to Iran's drone attack last Saturday, Bloomberg noted that, "Iran designed its retaliation to cause maximum symbolism, but minimum damage." Importantly, the G7 condemned the attack. We continue to monitor the risk of the geopolitical environment for its impact on global and U.S. markets.

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