CONCENTURE
WEALTH MANAGEMENT

Concenture Corner

Robert G. Gilliland
Managing Director

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2024

Visions of Sugar Plums and Other Holiday Treats: “Santa Bull” Delivers

Executive Summary

We believe the effect of Artificial Intelligence (AI) on the economy and the markets is similar to that of computers and the internet in the 1990s and of radio and the railroad during the 1920s.

As we reach the end of 2024 and look ahead to 2025, the equity market is enjoying **five major drivers: AI, liquidity, rising earnings expectations, consumer spending, and seasonal effects.** In this edition of the Sanctuary Corner, we’ll examine each of these drivers—and then some.

Overall, we remain positive on the market through the end of 2024 and into 2025. We believe **we are in a secular bull market** that, despite occasional interruptions by cyclical bear markets, should last until nearly the end of this decade. **Bulls always buck, but this one is charging forward—and upward**.

Driver #1: Artificial Intelligence (AI)

We believe that, for the rest of the decade, the primary driver of the U.S. economy and the markets will be AI and Blockchain. Just as the widespread adoption of computers in the late ‘80s/early ‘90s enabled the introduction of the internet to transform the global economy, markets, and social structures, we believe the introduction of AI will transform the global economy, markets, and social structures in this decade and beyond.

So far, the investment focus in AI has been on equipment. Nvidia has become the second largest company in the world based on market capitalization. Its new Blackwell chip not only outperforms all previous chips in speed and capacity, but it is also about 25 times more energy-efficient than its immediate predecessor.

It’s noteworthy that the typical path for technology innovations runs from equipment manufacturers to software developers. So far, during this cycle, most investor focus has been on hardware companies like Nvidia. We expect this focus to shift over the next several quarters to the software developers. Companies that develop AI applications should begin to come to the fore as AI proliferates throughout the economic structure.

Driver #2: Liquidity

Markets run on liquidity, and we have never before seen such extensive liquidity provided to a market outside the occurrence of a financial crisis.

Over the next several months, there are three major sources of liquidity headed toward the U.S. economy and markets. First, there are the Covid-19 Employee Retention Tax Credit (ERTC) payments from the Internal Revenue Service (IRS). These payments have been in suspension since September 2023, but the courts and Congress are pressing the IRS to resume these payments. The backlog of these payments amounts to about $100 billion. The IRS has paid about 4% of this backlog, but the balance will likely begin payments over the next several months. Most of these payments will go to smaller companies – a move that should boost GDP growth and consumer spending, while also likely supporting smaller-cap stocks.

Next, an even larger liquidity boost should occur if, as we expect, Congress finds itself unable to raise the debt ceiling by January 1. The debt ceiling is the maximum amount of indebtedness the United States Treasury can legally incur. While the Treasury can refinance existing debt with an increase in the debt ceiling, it may not raise any new funds through borrowing until Congress says it can. The Republicans maintain a slim majority in the House of Representatives, but political analyst Dan Clifton with Strategas believes the majority will need some Democratic votes to accomplish an increase to the debt ceiling. Until then, the Treasury will need to fund US government expenditures by spending from the Treasury General Account (TGA), injecting money into the banking system without drawing any additional funds by borrowing. This effectively increases the money supply, money that must be put to work somewhere, and that “somewhere” is usually risk assets, because they can be purchased quickly and sold immediately if necessary. In mid-November, the TGA had a balance of over $750 billion, and should still have a balance of over $700 billion in January. Clifton does not expect the debt ceiling to be increased until August.

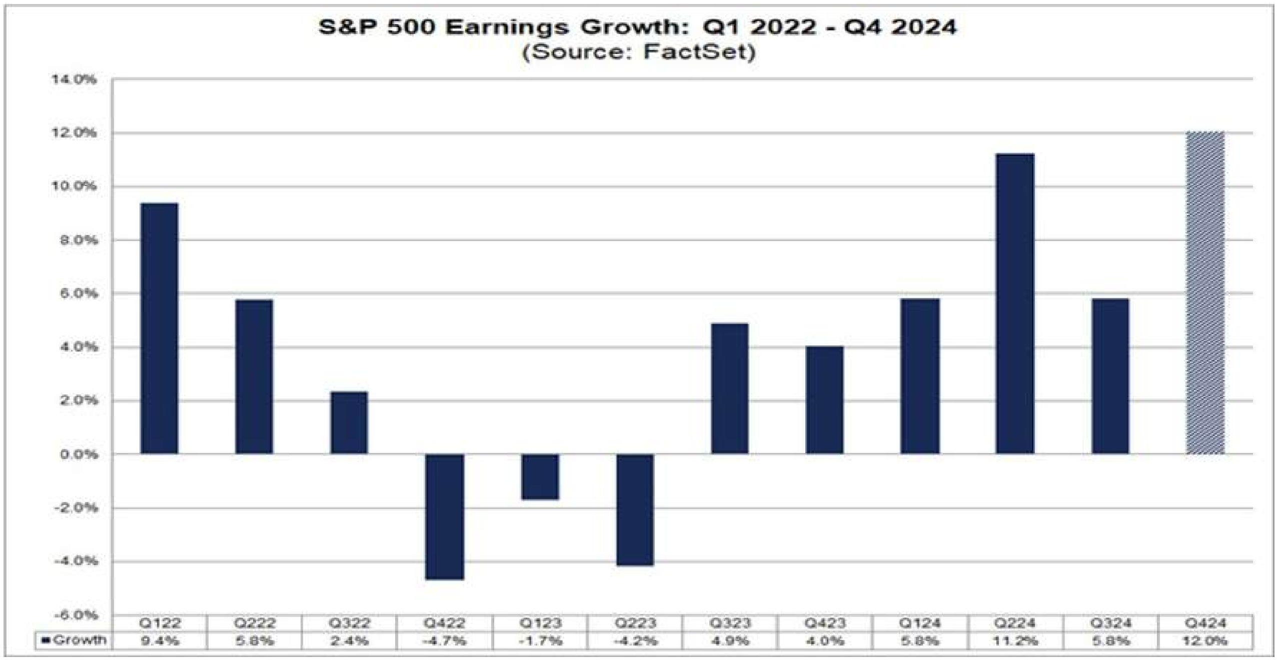
Finally, in the first quarter we believe the Fed will probably end the part of its quantitative tightening (QT) program that relies on selling U.S. Treasury securities. The Fed has been selling $25 billion of Treasuries from its books each month. These Treasuries were added over the past 15 years following the Great Financial Crisis, during years of “quantitative easing.” This policy eased monetary conditions by buying Treasuries and injecting cash into the banking system. Conversely, “quantitative tightening” absorbs cash from the banking system by selling Treasuries. Ending that program will mean that an extra $25 billion a month will remain in the banking system, and again, that money will have to find a quick home. The quickest place to put money to work is in risk assets, because they can be purchased quickly and, if necessary, sold quickly.

These three sources of liquidity should boost risk assets, including stocks, over the next several months.

Driver #3: Rising Earnings Expectations

FactSet estimates that the “earnings growth rate for the S&P 500 index is expected to more than double to 12.0%” in the fourth quarter of 2024 from the third quarter. “If 12.0% is the actual growth rate for the quarter, it will mark the highest year-over-year earnings growth rate reported by the index since Q4 2021 (31.4%).” [https://insight.factset.com/what-is- driving- the -higher- expec ted- earnings- grow th-for-the-sp-500-for-q4-2024]

FactSet Expects Stronger Earnings Per Share In 2024 Q4



Source: FactSet, November 22, 2024

Bloomberg reports that earnings for the S&P 500 are expected to rise over 13% for the next four quarters, indicating that FactSet's reported 12% expectations for this quarter should actually be below average. While earnings expectations normally decline as the quarterly earnings come closer to being reported, bull markets typically look at more distant expectations and they discount that normal decline. (Bear markets, on the other hand, tend to focus on more near-term events. So, a normal decline in expectations becomes important during bear markets.)

Driver #4: Consumer Spending

Reports indicate that Black Friday sales were around $10 billion, driven by online sales, which rose about 10% year-over-year. But in-store traffic declined compared to last year. Adobe has reported that Cyber Monday spending exceeded $13 billion. Holiday sales, so far, are above spending from last year.

Forbes Reports Strong Online Sales

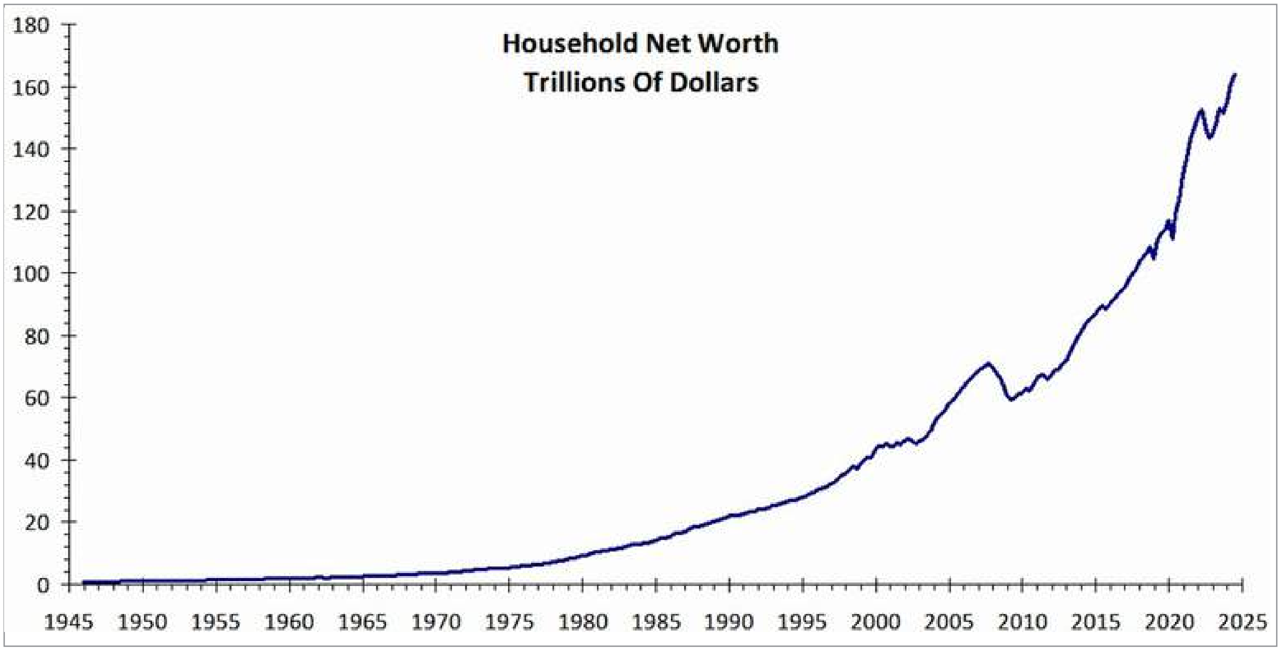

Forbes

Black Friday Online Sales Approach $11 Billion Up 10%, As In-Store Traffic Falls 8%

Source: Forbes, December 1, 2024

While some consumers are struggling with higher inflation, household net worth is at an all-time high.

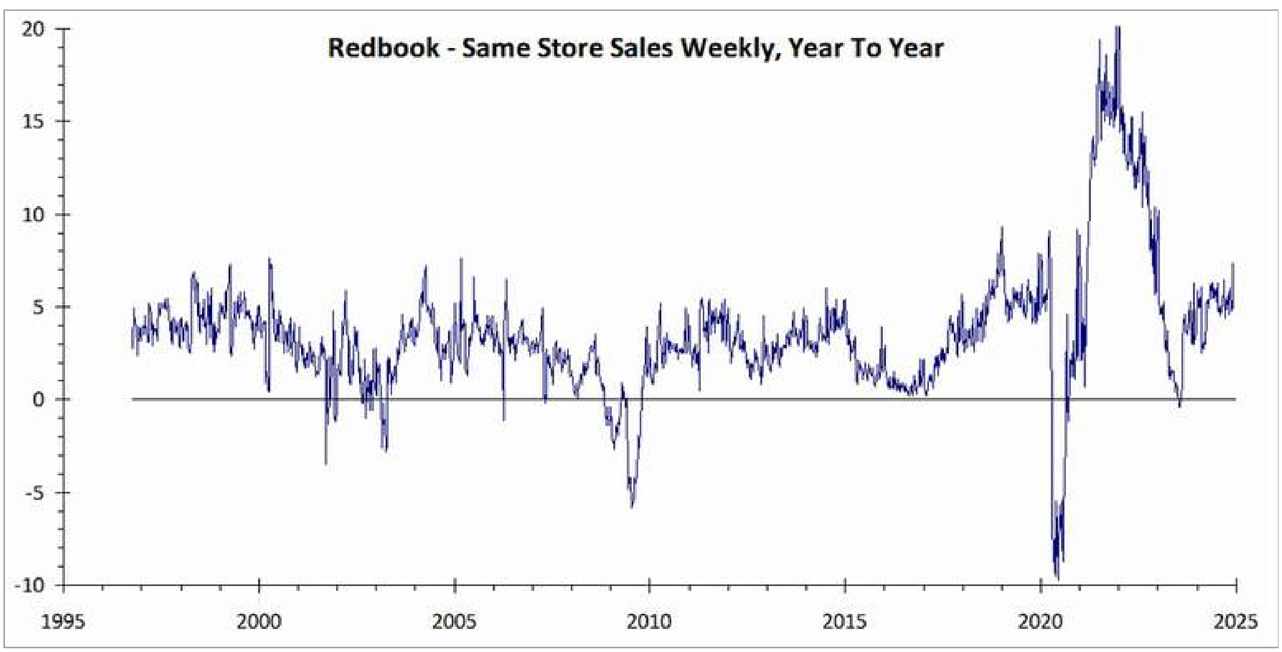
Household Net Worth Approached $164 Billion In 2Q 2024



Source: Federal Reserve Board Flow Of Funds, June 2024

We expect consumer spending to be strong this holiday season. Redbook Same Store Sales is growing significantly (see accompanying below).

Black Friday Weekly Sales Were More Than 7% Year-To-Year According To Redbook



Source: Redbook, December 3, 2024

Cyber Monday Sales Exceeded $13 Billion

Adobe

Cyber Monday Hits Record $13.3 Billion in Online Spending with Majority of Sales Driven by Mobile

December 3, 2024 6:00 AM PT

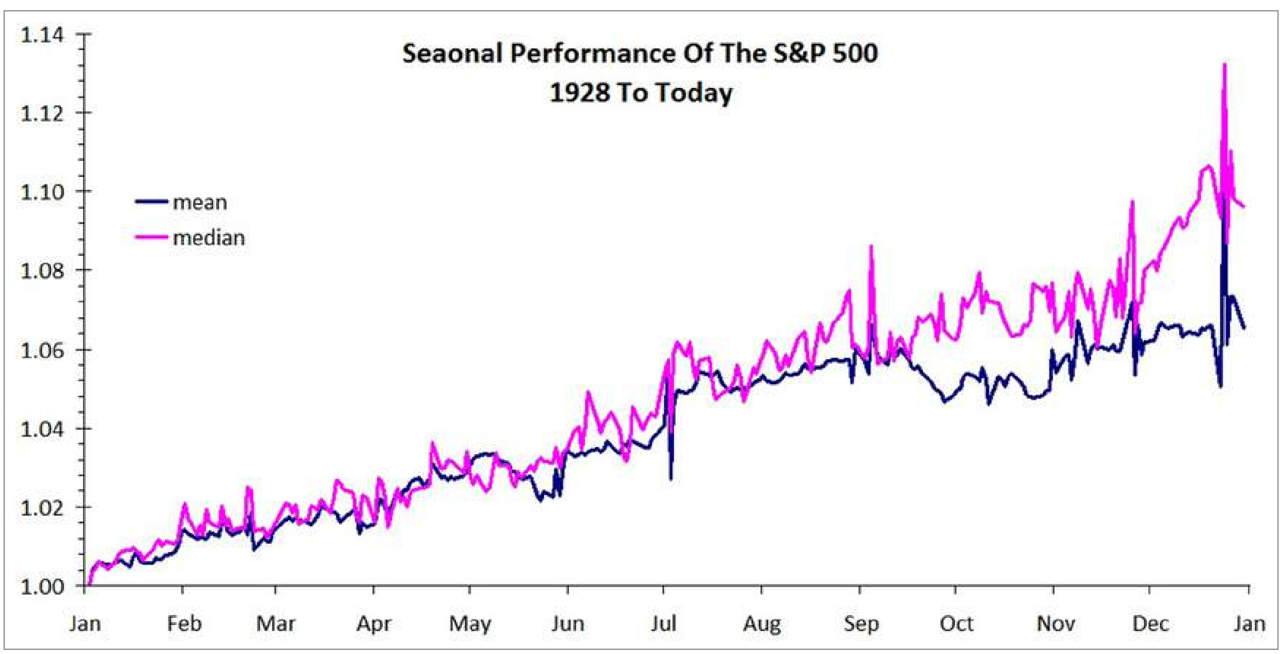
- •Adobe Analytics data shows record holiday season spending online, with Cyber Monday growing 7.3% year-over-year (YoY) to $13.3 billion, and Cyber Week up 8.2% YoY to $41.1 billion
- •57% of online sales came through a mobile device on Cyber Monday, an all-time high that represents $7.6 billion in online spending, up 13.3% YoY
- • Generative AI-powered chat bots are impacting how consumers shop online, with traffic to retail sites on Cyber Monday up 1,950% from the year prior consumers shop online, with trattic to retail sites on Cyber Monday up 1,950% from the year prior

Source: Adobe, December 3, 2024

Driver #5: Seasonal Effects

There is often a "Santa Claus rally" at the end of the year, and a positive "January Effect" at the beginning of the year. We believe we are in that Santa Clause rally already. Looking forward, we expect the January Effect to lift smaller capitalized stocks, which have underperformed over the past several years. The true Santa Clause rally is the last five trading days of the year into the first few days of January. These rallies are driven by seasonal liquidity effects – effects that we have already indicated might be much stronger this season than in other seasons. (See Driver #2: Liquidity, earlier in this report.)

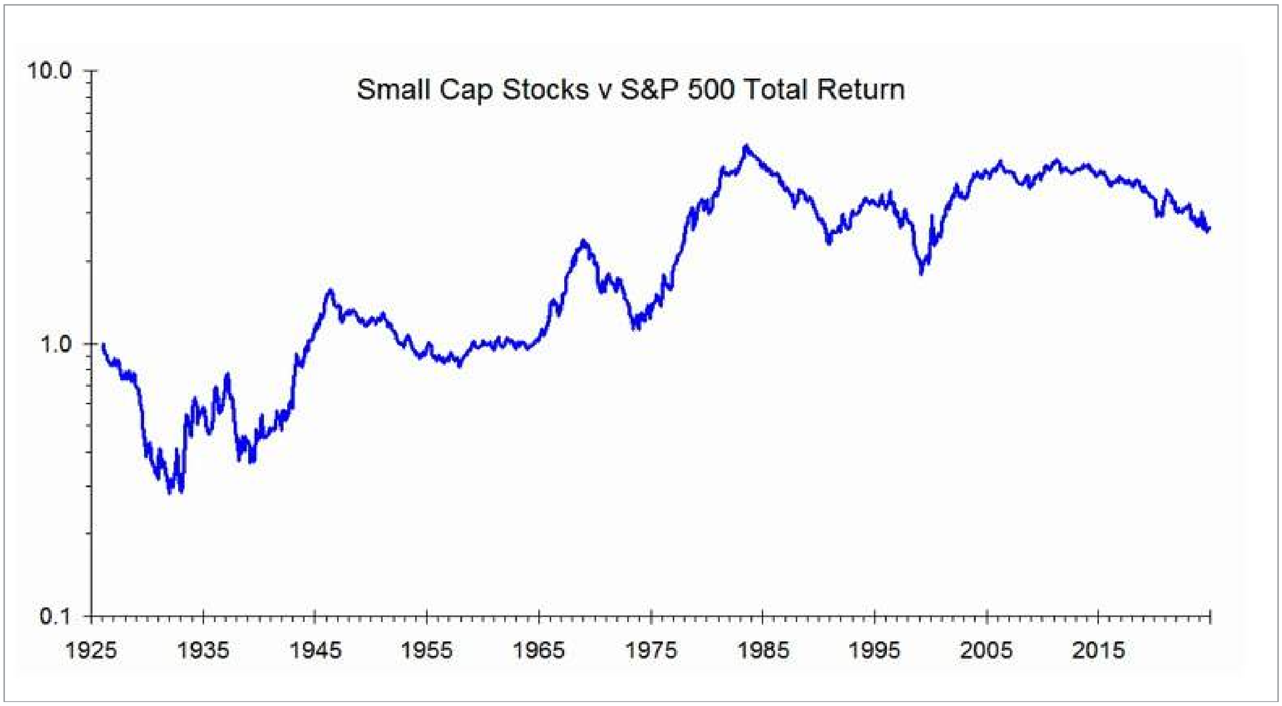
Seasonal Equity Market Performance Is Often Strong During December



Source: Standard & Poor's, Sanctuary Wealth, December 2, 2024

We have already mentioned that the IRS ERTC payments might help boost smaller stocks – and given the fact that the January Effect often favors smaller stocks – we believe that some of the underperformance in this sector might be offset over the next several weeks.

Small Capitalization Stocks Have Had A Rough Several Years



Source: Standard & Poor's, Morgan Stanley, Bloomberg Sanctuary Wealth, December 2, 2024

Falling Interest Rates Provide A Tailwind To Equity Performance

The 2-Year Treasury yield hit resistance near 4.4% and the price momentum indicator Moving Average Convergence/ Divergence (MACD) has turned negative, pointing to short rates falling over the coming weeks. This all supports equities pricing moving higher. We believe 2-Year yields could approach the 4% level.

2-Year Treasury Yield With MACD: Support At 4.0%

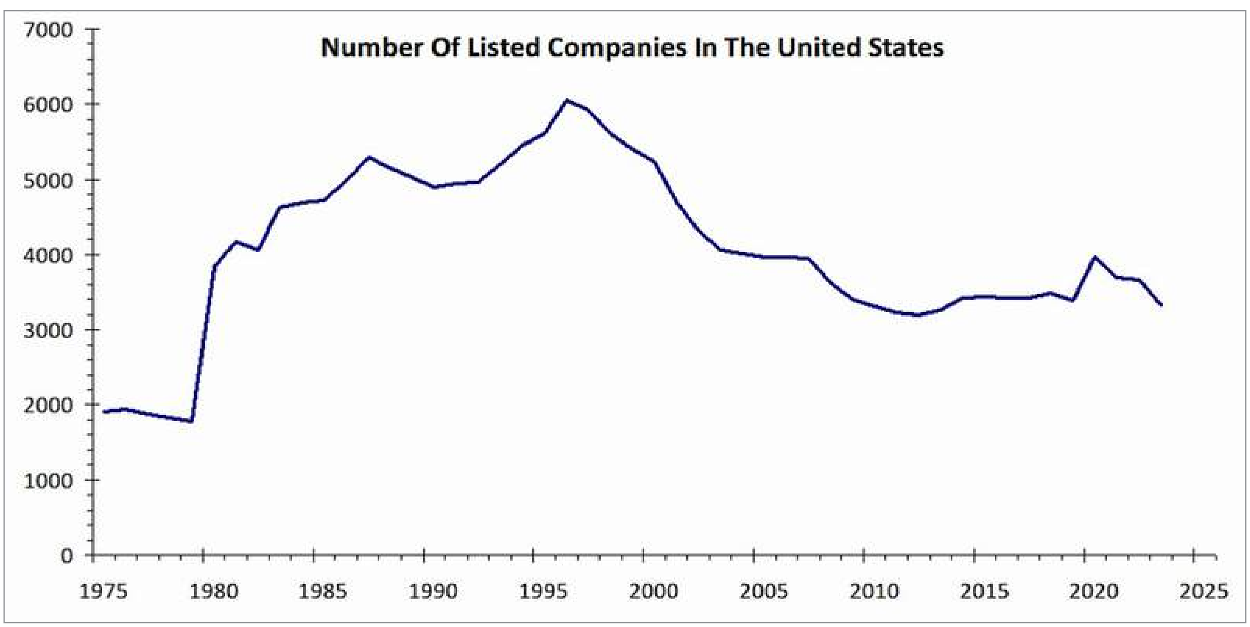
The 10-Year Treasury yield is also falling. Support is near 4.2%, but, if this breaks, the next level to test is 4.0%. The bond market became very happy with the nomination of Scott Bessent to become the next Secretary of the Treasury. In 2025, we expect the 10-Year yield to be range-bound between 4%-5%.

10-Year Treasury Yield With MACD: Rates Falling Support 4.2%-4.0%

We Expect Initial Public Offerings To Resume

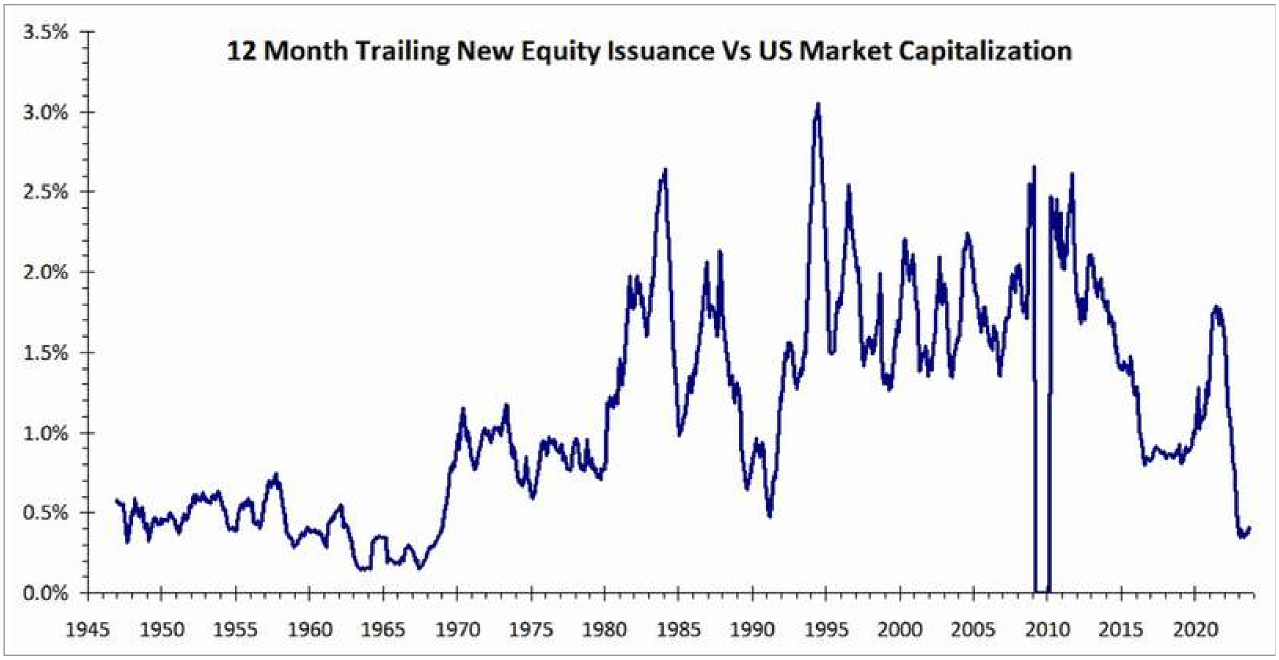
Another phenomenon we expect to see is the resumption of initial public offerings (IPOs). An IPO is when a stock is first introduced to the equity market. There was a surfeit of IPOs during the Dot-Com Boom of the '90s. Since then, private equity has funded most new businesses. We expect to see increased interest in IPOs through the rest of this decade as private equity firms bring the investments on their books to market.

The Number Of Listed Companies In The United States Has Declined Over The Past 25 Years



Source: Federal Reserve Board, St Louis Federal Reserve, Statista, Sanctuary Wealth, November 22, 2024

The Number Of Initial Public Offerings Is Low Compared To Recent Decades



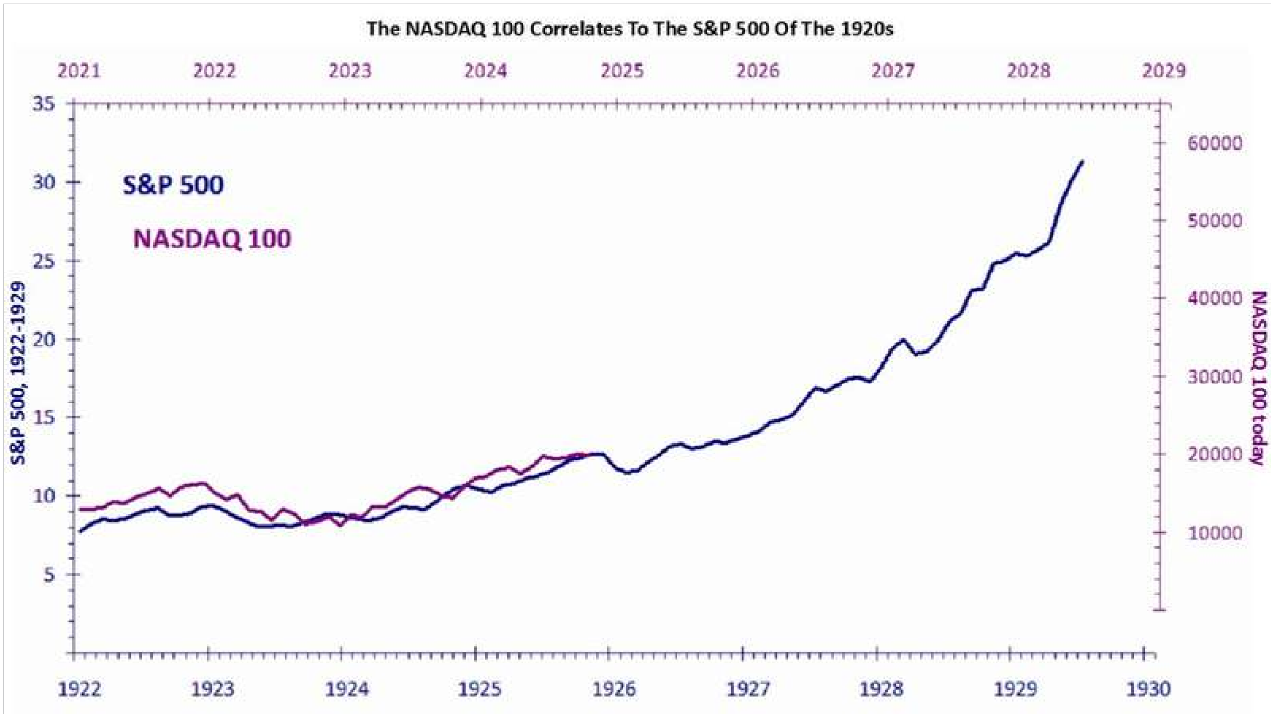
Source: Bloomberg, Wilshire, Sanctuary Wealth, December 2, 2024

We Expect Risk Assets To Perform Well During 2025 And Beyond

During the Dot-Com Boom of the '90s, there were five straight years in which the S&P 500 delivered returns of 20% or more (1995-1999). We believe we could see such performance again this decade: AI is likely to have a bigger impact on the economy, markets, and society than even the internet has had.

Our target for the S&P 500 in 2025 is 7200–7400. Before the decade is out, we expect to see the S&P 500 reach 10,000–13,000. If we are correct, and this market resembles the markets of the 1920s and 1990s, when tremendous increases in productivity made for tremendous increases in returns to capital, then the equity markets are only partially near their decade highs.

Nasdaq 100 Is Tracking The S&P 500 From 1920s



Source: Bloomberg, Sanctuary Wealth, November 2024

S&P 500 With Price Momentum Has Cleared 6000

Central Banks Have Been Large Buyers of Gold - Our Target For Gold is $4000

Gold Has Broken Out Of A Decades-Long Base And Is Rising

Bitcoin Taking Center Stage With The Trump Administration Bullish Crypto

The US Treasury Has Transferred $2 Billion In Bitcoin To Coinbase & Still Holds $18 Billion

5:40 Mon, Dec 2

CRYPTO BRIEFING

US government transfers $1.9 billion in Bitcoin to Coinbase Prime

by **Vivian Nguyen** **6 hours ago**

Government's crypto strategy impacts market sentiment amid large-scale Bitcoin transfers.

Key Takeaways

- The US government moved 20,000 Bitcoin worth $1.9 billion to Coinbase from a Silk Road-related wallet.
- The wallet still contains approximately $18 billion in Bitcoin after the latest transfer.

Source: CryptoBriefing.com, December 2, 2024

President-Elect Trump Has Congressional Support For A Bitcoin Reserve

Forbes

Bipartisan Support Builds For Strategic Bitcoin Reserve

Sam Lyman Contributor

Updated Oct 2, 2024, 11:15am EDT

Oct 2, 2024, 07:00am EDT

Source: Forbes, October 2, 2024

Bitcoin May Be The "Credits" Of The Future

Bitcoin is much like the "credits" exchanged in Star Trek. There was no "money" in Star Trek, only an exchange of electronic "credits" for goods and services. Bitcoin is in position to begin to provide that means of exchange, faster and more efficiently than moving gold or silver. And because of its limited supply (there can never be more than 21 million bitcoin by design), it can prove to be more resilient to inflation than other currencies.

Bitcoin Has Broken Out: Technicals 1st Target $100,000-113,000; 2nd Target $150,000

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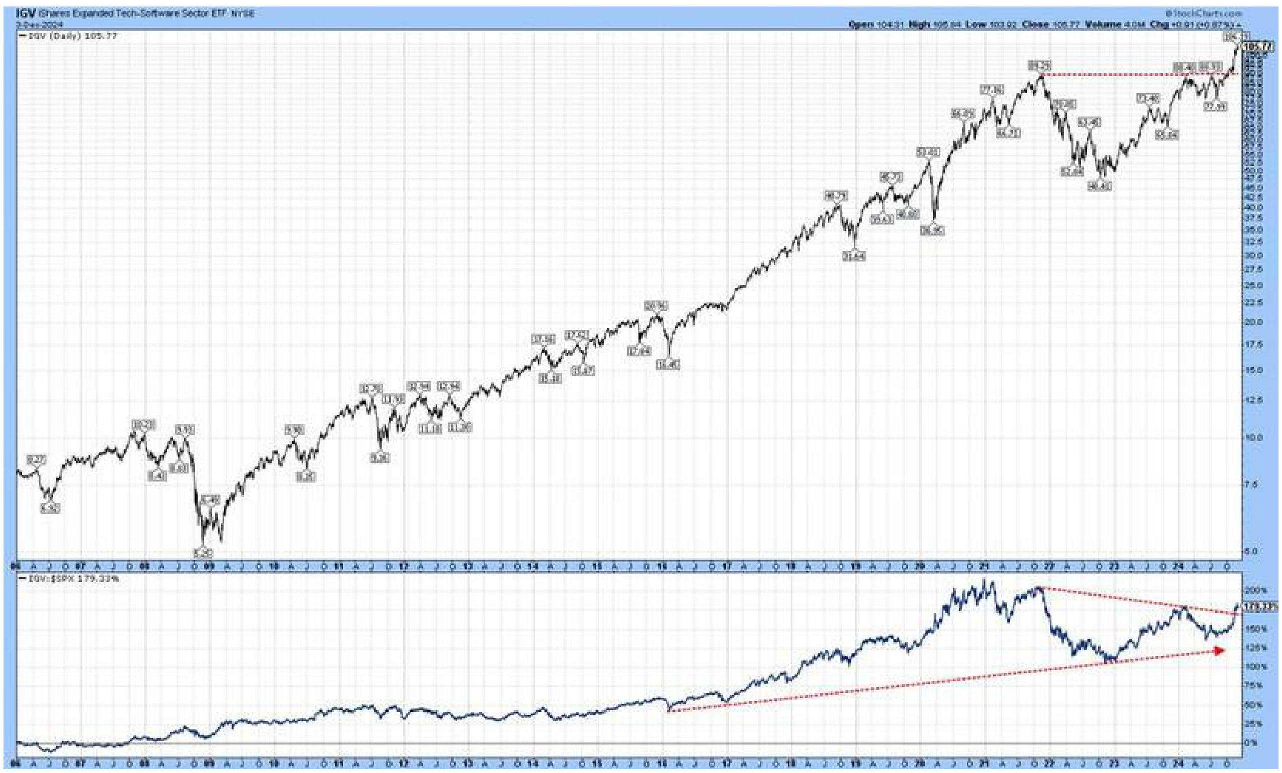
Positioning

We Expect Technology To Retain Its Leadership

The expansion of AI into the economy and society will accelerate. People might at first not even notice how pervasive it is becoming. The focus will begin to shift from hardware manufacturers (i.e., the semiconductor companies, who should continue to perform well), to the software companies that create the applications that run on that hardware. This is the normal course of technological transition.

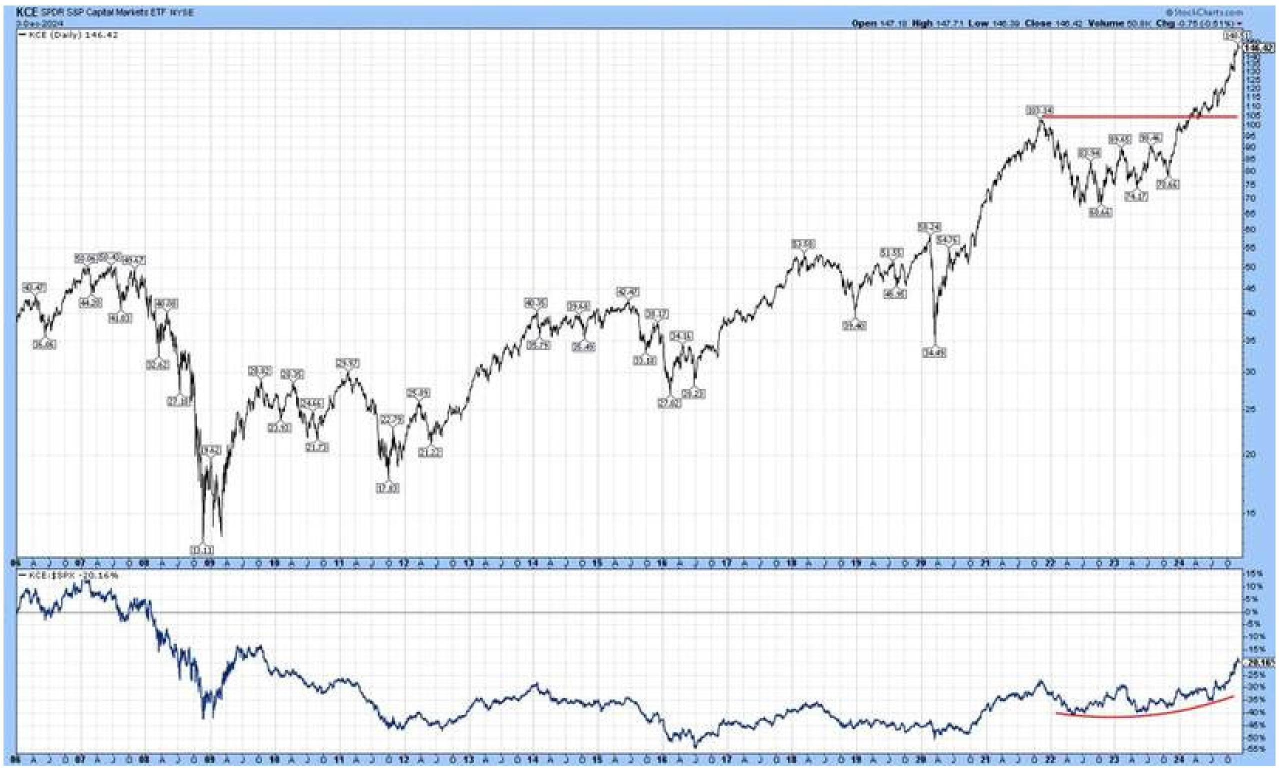
iShares Expanded Tech Software ETF (IGV) With Relative To S&P 500



We Expect Financials To Perform Well

The incoming Trump Administration is expected to once again be friendly to the Financial sector. With this support, coupled with the enormous amount of liquidity that we expect from the central government, we also expect an acceleration in IPO activity. This should create an environment in which Financials should prosper. Capital Markets stocks have already begun to discount this move and have broken out.

S&P SPDR Capital Markets ETF Has Broken Out And Is Improving Relative To The S&P 500



We Continue To Prefer Growth Over Value

Earnings expansion is favorable to growth stocks, just as it was in the ‘90s, when value stocks also lagged. We think Growth stocks should generally outperform value stocks in this environment.

S&P 500 Growth Is Performing Well Versus S&P 500 Value

Our Focus Remains On The U.S. Rather Than The Rest Of The World

The center of technological innovation and financial activity remains the United States. President-Elect Trump has made it clear that his Administration intends to keep it so. We think this is positive for the performance of U.S. equities relative to stocks outside the United States.

U.S. Stocks Are Outperforming Global Equities

Source: Bloomberg, Sanctuary Wealth, December 2, 2024

Last Words

A massive increase in liquidity, rising earnings expectations, strong consumer spending, and seasonal effects are enough to cause a cyclical rise in equity prices, in our view. Underlying all this, however, is artificial intelligence, which has only just begun to produce economic and sociological effects that should enable enormous gains in productivity and returns to capital. We believe the advent of AI has set conditions for a secular bull market that will last the rest of the decade. In addition to this, we are experiencing cyclical tailwinds for the equity markets as interest rates decline. We believe we should be in a sweet spot for equity performance for the next several months.

The risk to our investment outlook would be if inflation begins to rise and the Fed has to stop lowering rates and begins to raise them again. Another risk which many fear is the level of the U.S. deficit. At this time, we are not concerned about the high level of the deficit as our economy is much stronger than other global countries, particularly Europe and China, and this should still attract capital to the U.S. But, we do in time need to address this.

Mary Ann Bartels
Chief Investment Strategist

15377 Memorial Dr Suite 340,
Houston, TX 77079