



Sanctuary Corner

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February
2025

Are We In An Historic Mega Cycle for Growth?

Secular Bull Market Rides Wave Of Innovation

Executive Summary

While February traditionally represents a seasonally weak month, we remain positive on the U.S. equity market. The Bucking Bull has carried over into 2025, but just as the five corrections last year resolved and moved markets to record highs, we expect the same this year. We maintain that we are in a secular bull market that should last until the end of this decade, driven by innovation in artificial intelligence (AI), robotics, blockchain, Web 3.0, and virtual reality. Over \$300 billion is expected to be invested in AI alone in 2025.

We believe the primary driver of the U.S. economy and markets for the rest of the 2020s will be these new innovations that are emerging and being adopted at an unprecedented pace. Just as the combination of widespread adoption of computers by the late 1980s and early 1990s enabled the introduction of the internet to transform the global economy, markets, and social structures, we believe the introduction of these new technologies will again transform the global economy, markets, and social structures. This process has only just begun as we have reached the middle year of this decade.

Our target for the S&P 500 in 2025 remains 7200–7400, and before the decade ends, we expect to see the S&P 500 reach 10,000–13,000. If we are correct, leaps in productivity should make for increases in returns to capital leading to a robust earnings cycle.

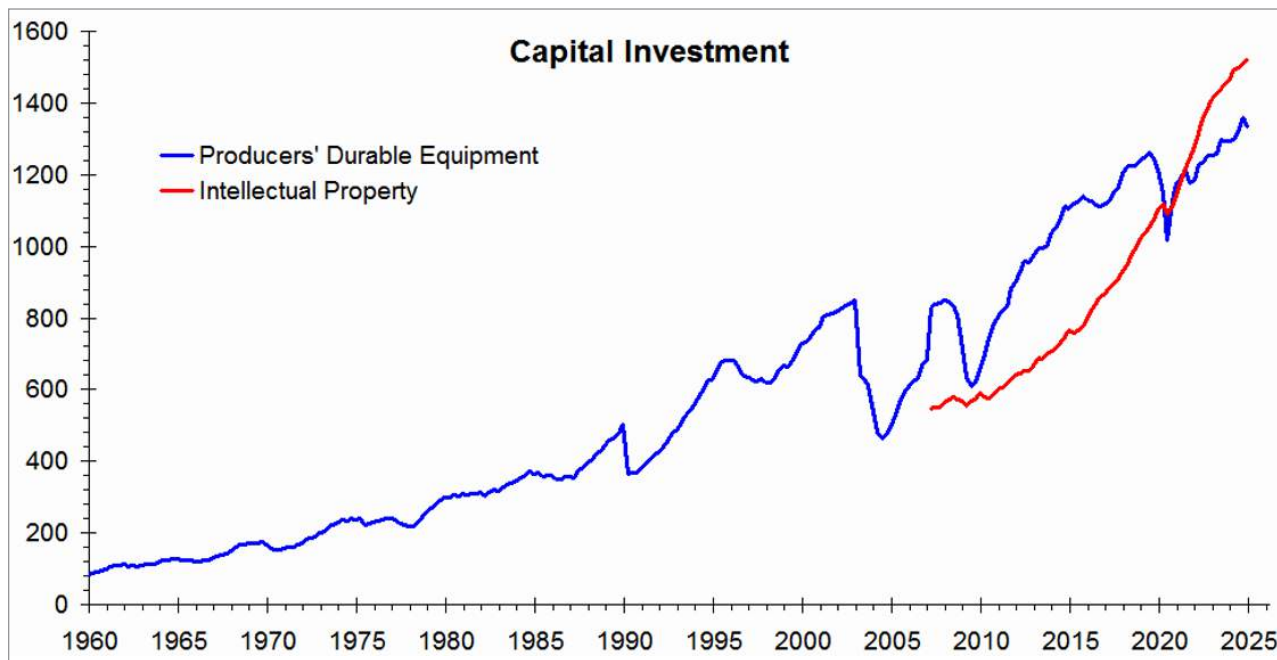
The risks to our outlook are (1) inflation begins to sustainably rise and the Federal Reserve (Fed) switches course and raises interest rates or (2) there are tariffs implemented that severely restrict economic growth and cause inflation.

Technology Leadership Is Still In Place

The global economy is driven more and more by innovation. This has arguably always been the case – for example: copper tools were better in many ways than stone tools, bronze better than copper, iron better than bronze, and steel better than iron. But the pace of innovation has changed, from millennia to centuries to decades to mere years. Mobile phones improve from year to year with the regularity of fast fashion retailers updating seasonal trends.

To get a better understanding of the pace of change and its effect on the economy in the United States, the Bureau of Economic Analysis added Intellectual Property (IP) to its calculations nearly 20 years ago. This was an insightful and fortuitous move: IP now accounts for more capital investment in the U.S. than durable equipment – which had been the foundation of capital investment over the past three centuries.

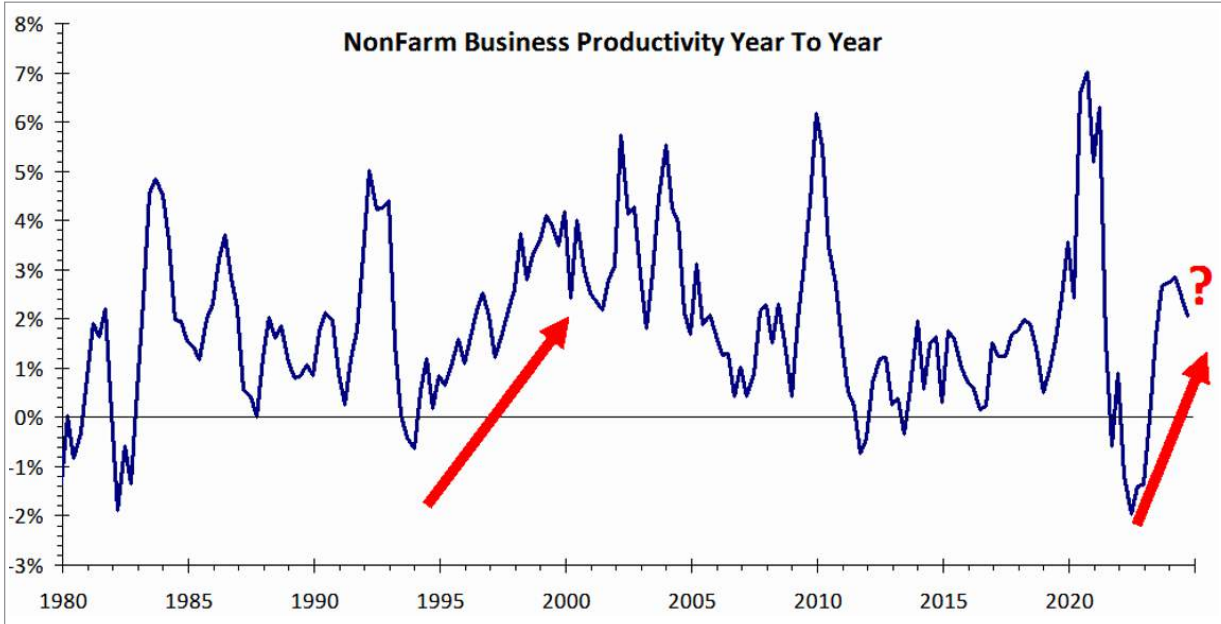
Capital Investment In Intellectual Property Now Exceeds That In Durable Equipment



Source: Bureau of Economic Analysis, Sanctuary Wealth, January 31, 2025

Today much of that capital investment in IP is directed toward AI, which is slowly becoming integrated into production, services, and our day-to-day lives. For example, Erica was one of the first AI tools introduced by Bank of America for customers back in 2018. The effects of this new wave of AI have not yet been reflected in the Bureau of Labor Statistics' productivity figures, but we believe this is likely to change in the near future. Higher productivity generally delivers greater returns to capital, which, in our view, will be reflected in higher prices for equities and likely sustainably higher price-to-earnings ratios in the years to come.

Gains In Artificial Intelligence (AI) Are Not Yet Apparent In Productivity Numbers



Source: Bureau of Labor Statistics, Sanctuary Wealth, February 6, 2025

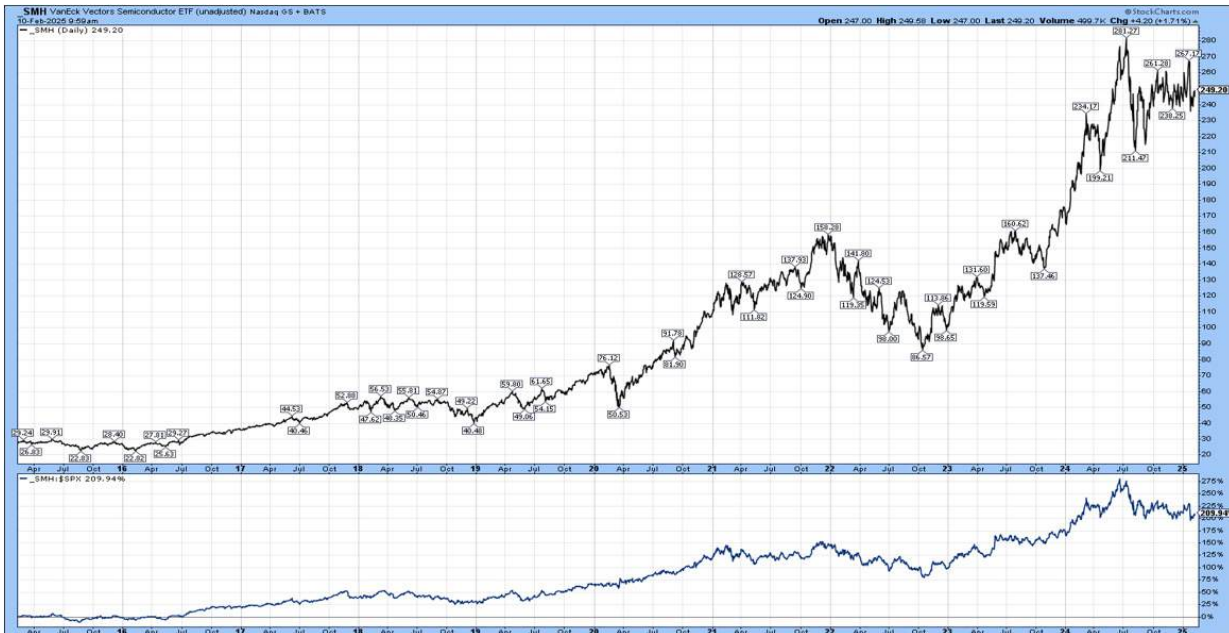
Software Is Taking Technology Leadership From Semiconductors

Technology follows a cycle of investment: from hardware (semiconductors, for instance) to software. New hardware is developed to run faster, solve bigger problems, and use more data at once. Then new software is developed to take advantage of the new hardware. That movement from semiconductors to software is taking place now. We believe Technology retains its market leadership, but that this leadership is moving from semiconductor stocks, the darlings of the market last year, to software.

iShares Expanded Tech-Software Sector ETF (IGV) (Top) With Relative Price To S&P 500 (Bottom)



VanEck Semiconductor ETF (SMH) (Top) With Relative Price To S&P 500 (Bottom)



Salesforce: An Example Of Software Leadership

Looking at Salesforce as one example, we see the company is employing AI in its products to assist users in creating emails, scheduling meetings and travel, and building knowledge bases on their customers. A knowledge base contains detailed information about customers—what they purchase, when they purchase it—as well as what competitors are buying, enabling sales teams to anticipate customer needs. Instead of investing directly in AI data centers, Salesforce is directing its investment into AI agents, which are software packages that run in data centers and perform analyses for Salesforce users, giving them a distinct advantage over competitors by giving their customers an advantage, too. We believe this new technology should lead to productivity gains.

Salesforce (CRM) (Top) With Relative Price To S&P 500 (Bottom)



The Value Is In The Data

The value of AI lies in the data it gathers and analyzes, as well as the insights derived from that analysis—insights that help anticipate user needs, identify potential problems, and prepare for contingencies in advance. That data must be reliably stored, along with the models constructed to analyze it, as well as the results of the analysis. This of course is done in data centers, which is why there is such a demand and investment going into them.

Tech megacaps plan to spend more than \$300 billion in 2025 as AI race intensifies

PUBLISHED SAT, FEB 8 2025•8:00 AM EST UPDATED SAT, FEB 8 2025•11:02 AM EST

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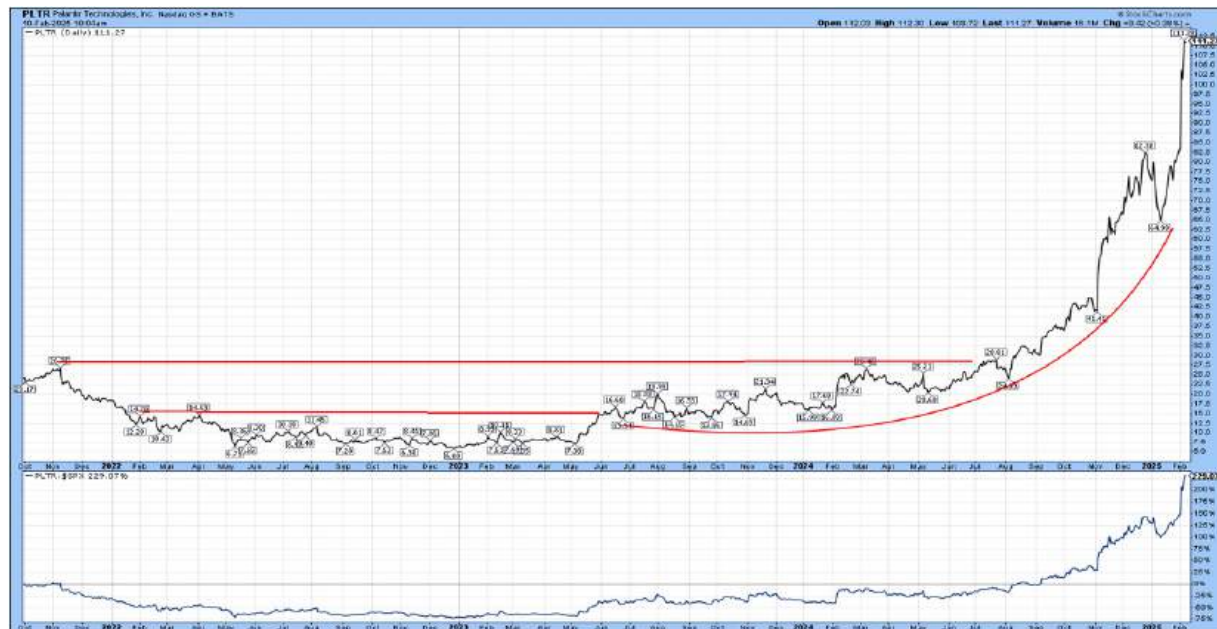
KEY POINTS

- Meta, Amazon, Alphabet and Microsoft intend to invest as much as \$320 billion this year into artificial intelligence technologies.
- Technology companies are racing to build out data centers and AI infrastructure that will put them ahead of the competition.
- Amazon offered the most ambitious spending plan, aiming to shell out \$100 billion.

Companies That Process And Analyze Data Are Likely To Do Well

We believe the stocks of companies that perform data analysis should perform well. A good example is Palantir, which serves the U.S. intelligence services, military, and many global corporations by processing vast troves of data, identifying patterns, analyzing them, and delivering insights to its users. The stock is currently extended and is likely to correct, but the longer-term trend remains positive.

Palantir (PLTR) (Top) With Relative Price To S&P 500 (Bottom)



What's Old Is New: IBM Returns As An AI Leader

IBM, a stalwart blue chip position in many portfolios for decades, has returned to the Technology fore. First, IBM dominates the still-important mainframe market. Mainframes have not gone away: they power many of the airlines, banks, insurance companies, and medical centers around the world. But IBM is also involved in data centers, data storage, and data analysis. It has begun to shine once more as AI investment plays to its strengths in both hardware and the analysis of massive amounts of data.

IBM (IBM) (Top) With Relative Price To S&P 500 (Bottom)



DeepSeek, Spies, And AI Agents

Chinese start-up DeepSeek rattled the U.S. stock market at the beginning of February when it delivered a solid AI with performance competitive with American AI. DeepSeek initially claimed to have achieved this with an investment of less than \$6 million, using only domestically produced Chinese hardware. However, it soon became apparent that the company had relied on tens of thousands of Nvidia chips—some acquired before U.S. export restrictions and others seemingly obtained surreptitiously afterward. The actual expenditure was far greater than claimed, with estimates exceeding 30 times DeepSeek’s original figure.

Still, this achievement should not be underestimated. First, it is good work: Google DeepMind co-founder and CEO Demis Hassabis told CNBC on Sunday, February 9, that it was some of the best work he’d seen from China. But he went on to say, “[T]here’s no actual new scientific advance ... it’s using known techniques [in AI],” and that the hype around DeepSeek has been “exaggerated a little bit.”

In our February 3 edition of Sanctuary Week Ahead, we mentioned the Jevons paradox (or Jevons effect). This occurs when a resource becomes cheaper, leading to increased demand and ultimately higher overall consumption than when it was more expensive. We expect that this will prove true of AI, just as it was of mobile phones, of personal computers, of airline flights, of automobiles, of telephones, of telegraphs – the list of such examples is almost inexhaustible.



Google opens its most powerful AI models to everyone, the next stage in its virtual agent push

PUBLISHED WED, FEB 5 2025-11:00 AM EST | UPDATED WED, FEB 5 2025-2:27 PM EST



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KEY POINTS

Google on Wednesday released the Gemini 2.0 artificial intelligence model suite to everyone.

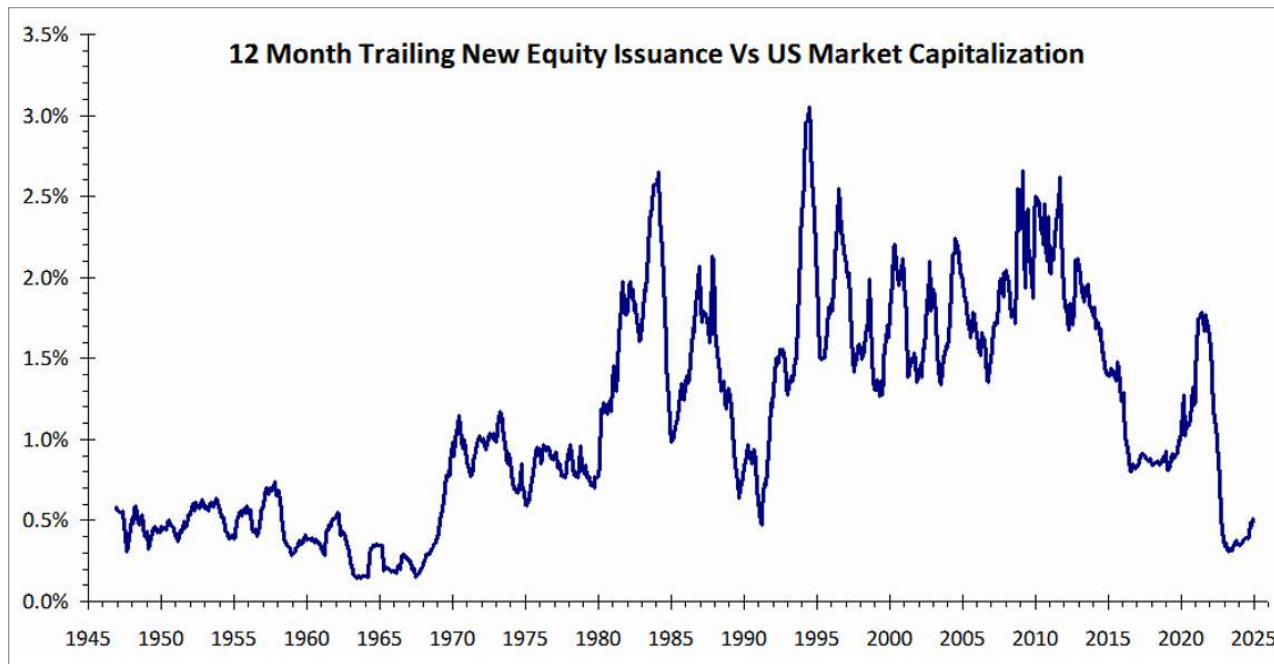
The continued releases are part of a broader strategy for Google of investing heavily into “AI agents” as the AI arms race heats up among tech giants and startups alike.

Meta, Amazon, Microsoft, OpenAI and Anthropic have also expressed their goal of building agentic AI, or models that can complete complex multistep tasks on a user’s behalf.

Financials Are Strong, Driven By Banks & Capital Markets

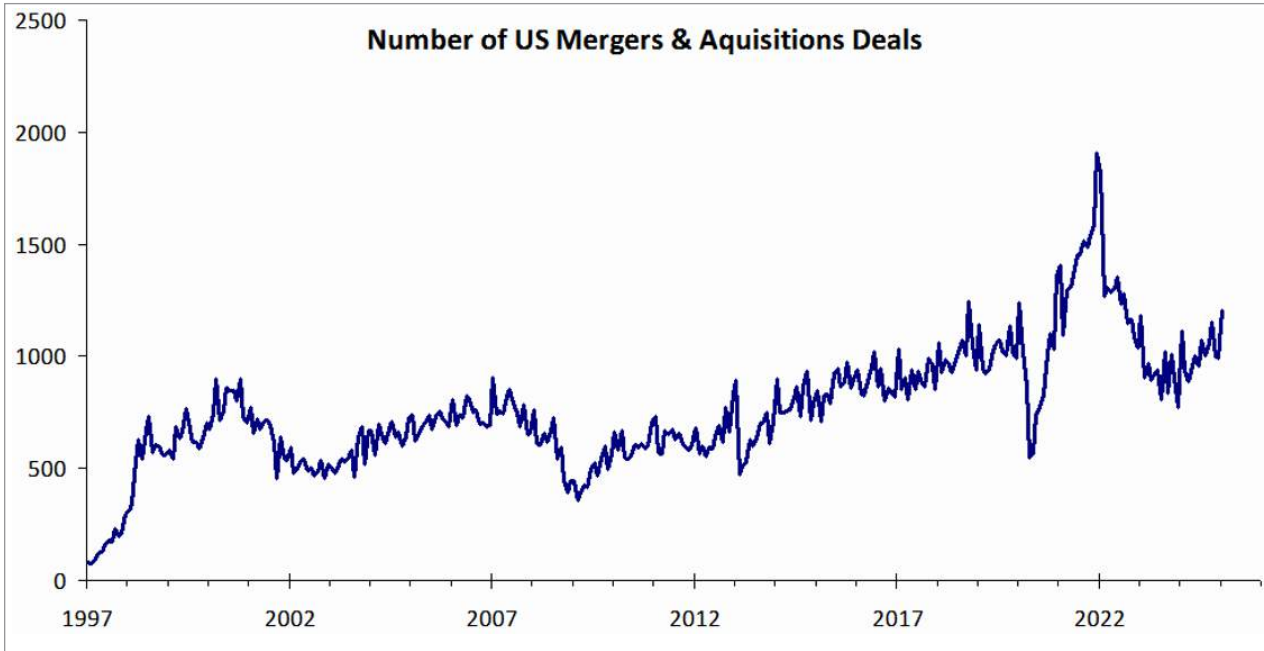
As a sector, Financials underperformed over the past several years, but now their prospects have improved. For one, the regulatory environment has drastically changed as the Administrations changed last month in Washington, D.C. Under President Trump, the Administration is far less committed to strict regulatory oversight and more open to financial innovation. Moreover, the new issuance of equity – that is, initial public offerings (IPOs) – is likely to increase in the coming months as private capital looks to monetize many of its investments, bringing them to public market. Finally, along with their earnings for last quarter, many banks and capital markets firms have reported that they anticipate a rise in merger and acquisitions (M&A) activity, which will be made easier by the policies of the new Administration.

Our View: Initial Public Offerings Are Likely To Increase From 55-Year Lows



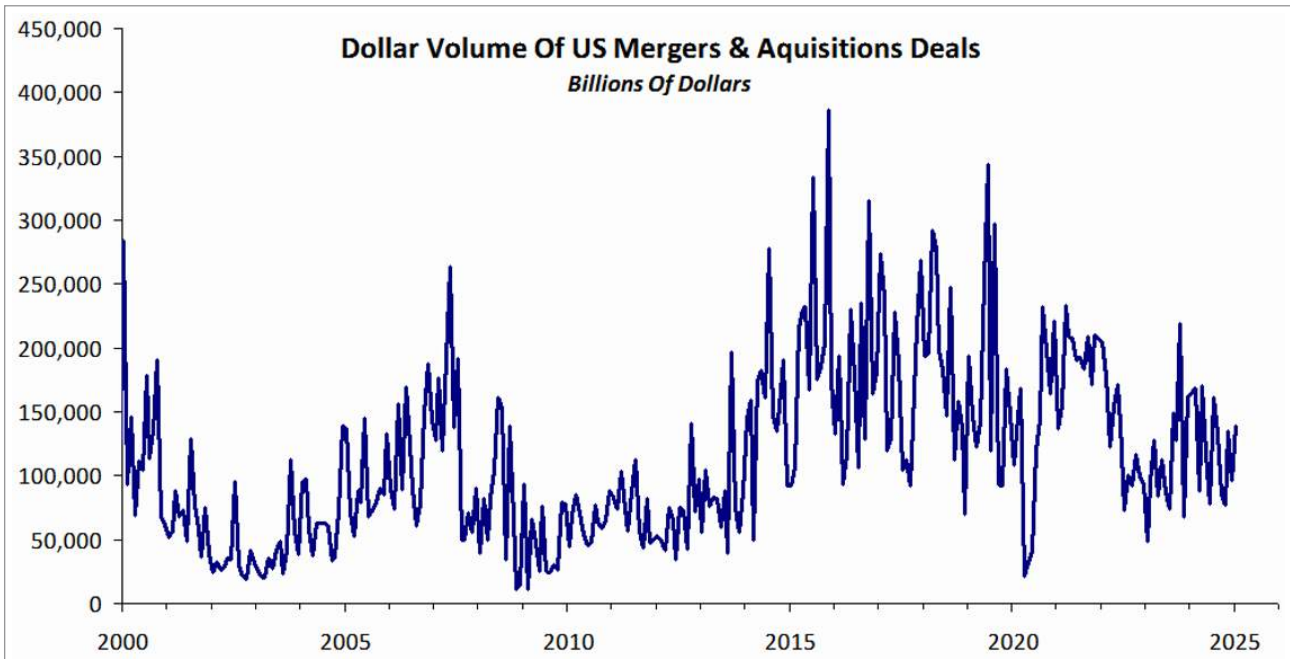
Source: Federal Reserve Board, Bloomberg, Sanctuary Wealth, February 9, 2025

Our View: Mergers And Acquisitions (M&A) Are Also Likely To Increase



Source: Bloomberg, Sanctuary Wealth, February 9, 2025

Our View: The Value Of M&A Deals Is Likely To Rise



Source: Bloomberg, Sanctuary Wealth, February 9, 2025

These changes presage an improvement in Financials, we believe. The stocks have already begun to show a positive response.

Renaissance IPO ETF (IPO) In A Rising Trend



SPDR S&P Capital Markets ETF (KCE) (Top) With Relative Price To S&P 500 (Bottom)



SPDR S&P Bank ETF (KBE) (Top) With Relative Price To S&P 500 (Bottom)



Treasury Yields In Stable Range Helping Banks, Capital Markets & Economy

The new Treasury Secretary, Scott Bessent, has said that the Administration is focused on long-term rates rather than short-term rates. As a policy matter, this helps the Treasury finance its enormous debt at more favorable rates over a longer period, reducing the risk of surprises and allowing for easier planning.

Declining long-term rates also generally help the banking system, as well as Corporate America, which can more easily plan and finance investments, and households, which should be able to look forward to stable, if not lower, mortgage rates.

We believe the 10-year Treasury yield is testing 4.5% and has major resistance at 5%. We expect the longer end of the curve to be range-bound between 4%-5%. Sticky inflation has kept the yield higher, but any sign of inflation ebbing could cause this rate to fall.

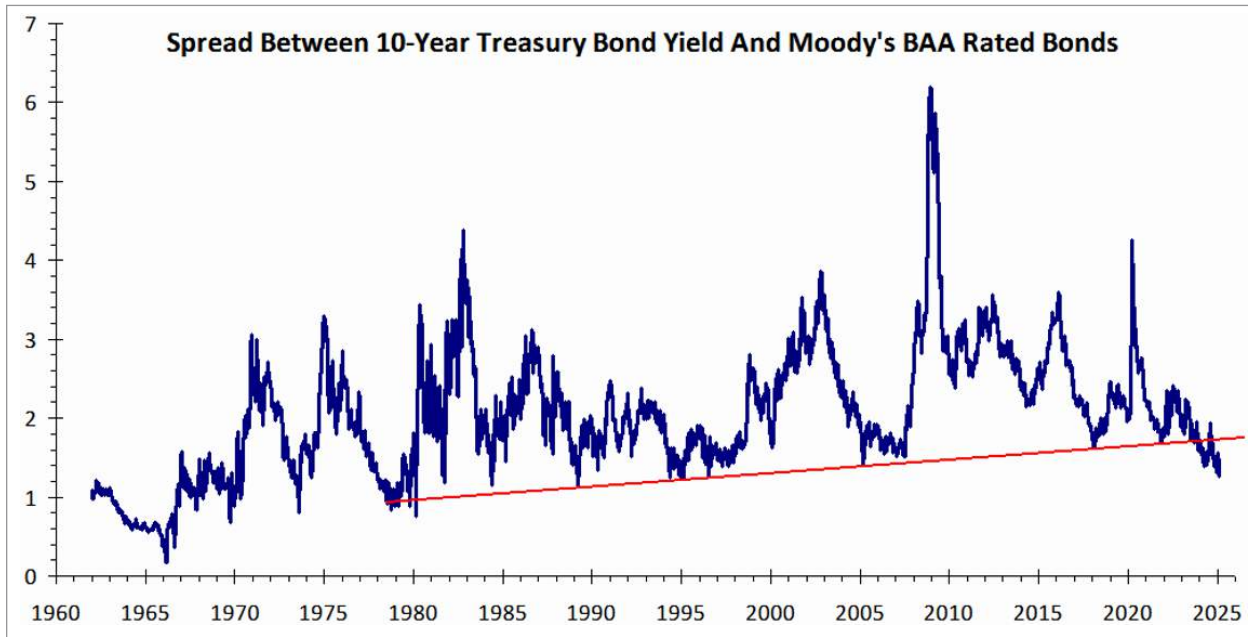
10-Year Treasury Yield Resistance At 5% & Has Near-Term Downtrend



Markets Reveal The Lowest Level Of Stress In Decades

The spread between Moody's BAA bonds, a lower medium grade corporate bond, and 10-year Treasury yields is an indicator of whether investors believe there is risk in lending to corporate borrowers. The recent decline in these spreads indicates that the markets believe the risk is as low as it has been in the past three decades. A stronger than expected economy and labor force, along with lower rates, have compressed and kept this spread low.

Spreads Between Treasury And Corporate Bonds Are The Tightest In 30 Years



Source: Federal Reserve Board, Moody's, Bloomberg, Sanctuary Wealth, February 6, 2025

We Still Think Bitcoin Can Rise 13%–50% This Year

Our target for Bitcoin (BTC) this year is \$130,000 – \$150,000. BTC was able to reach a record high in January and is consolidating its recent gains. We took a look at how BTC trades relative to the S&P 500 and found that the correlation between the two since the end of 2022 is nearly 94%. This indicates that Bitcoin has recently been rising and falling along with the stock market, albeit with much greater volatility (i.e., with bigger swings in price). So BTC remains a high-risk asset for portfolios, in our view.

Our View: Bitcoin Is In A High Level Consolidation



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Drill Baby Drill May Suppress Oil Prices

Another policy of the Trump Administration is to encourage oil and gas drilling, production, and export. With global oil production already strong, we expect lower oil prices—the Administration’s stated policy goal. As a key economic input, cheaper oil could help boost economic growth. Oil prices seem capped near the 200-day moving average near \$80 with support in the mid \$60s.

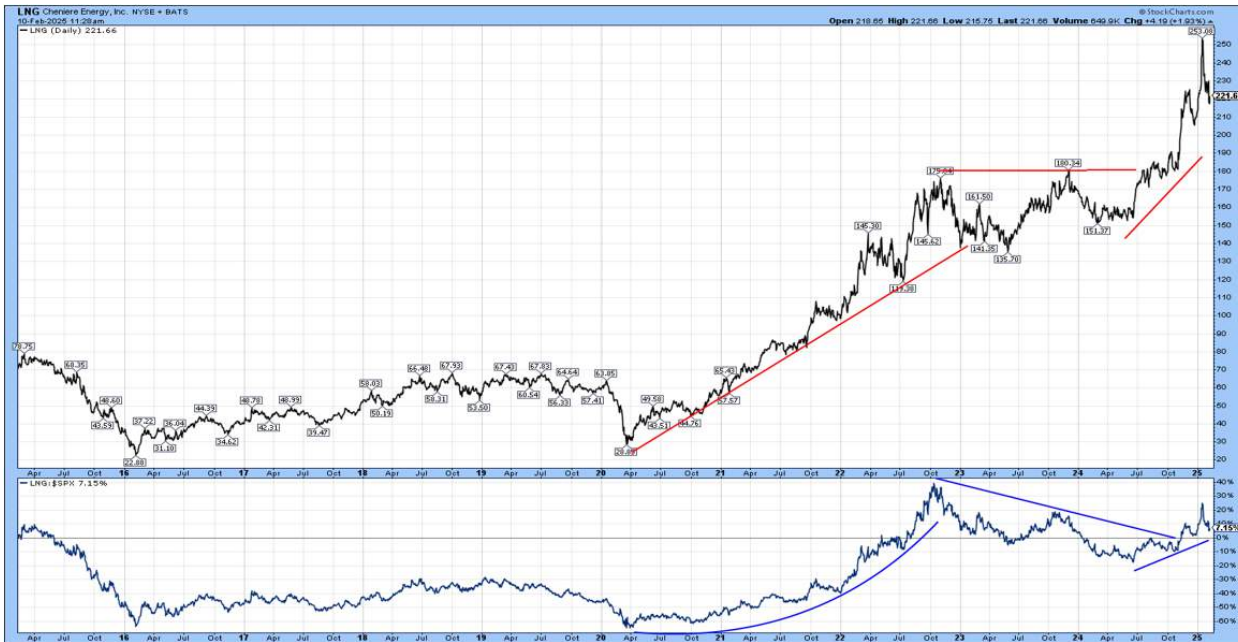
West Texas Intermediate (WTI) Crude Oil Price Below Its 200-Day Moving Average



Select Energy Stocks Still Remain Deep Value

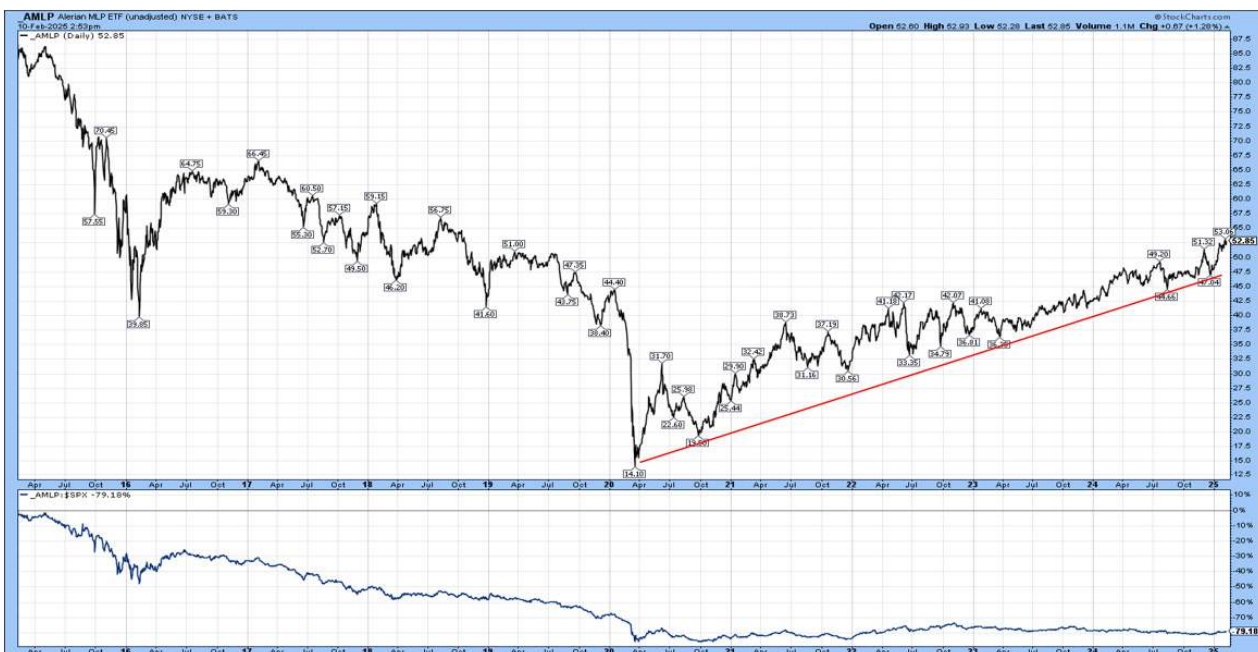
Energy stocks have generally languished over the past several years, and lower oil prices will do them no favors, in our view. However, there are some stocks in the sector that stand to prosper. One of these is Cheniere Energy (LNG), a liquid natural gas company, which we believe stands to gain from increased exports of liquid natural gas.

Cheniere Energy (LNG) (Top) With Relative Price To S&P 500 (Bottom)



Pipelines are another industry in the Energy sector that should do well under the new policies of the Trump Administration, in our view.

Alerian MLP ETF (AMLP) (Top) With Relative Price To S&P 500 (Bottom)



We Still Prefer Growth Over Value

While there are value opportunities in the market, as we noted in the Energy sector, we believe investors will continue to favor Technology and Tech-related stocks for their superior earnings growth, driven by innovation, as discussed earlier in this report. So, we continue to prefer Growth over Value. In fact, we believe we are in a Mega cycle for Growth that has *never existed before in market history*.

Russell 1000 Growth ETF (IWF) Versus Russell 1000 Value ETF (IWD)



Our View: This Is The Golden Age Of Investing

In our view, we're in a period that is likely to be the best time to invest in equities in nearly a quarter century. Productivity is likely to rise, increasing returns to capital. The Trump Administration is very business-friendly.

Interest rates are unlikely to return to the deep lows we saw over the past 15 years, but those were historical anomalies. We believe interest rates have moved back to what is historically considered to be in a normal range.

Gold, on the other hand, has been performing extraordinarily well. We believe this is for several reasons: concerns over inflation, the deficit and the U.S. dollar. Gold is positioned for a continuation of its bull run. Our target for gold this year is \$4000 per troy ounce.

Gold Is In A Bull Run Charging Toward \$4000



Last Words

At this time, our position is to buy equities on weakness, preferring companies in the Technology, Financials and Industrial sectors. We continue to prefer Growth over Value, Cyclical over Defensive, and Large Caps over Small Caps. We remain overweight in Equities relative to Fixed Income. Within Fixed Income we recommend a neutral duration stance amid our expectations of a range-bound 10-year Treasury yield. We would take the risk to high yield and mortgage-back securities despite the tight spreads as our outlook for rates and the economy remain favorable.

Risks:

The risks to our outlook are (1) inflation begins to sustainably rise and the Federal Reserve (Fed) switches course and raises interest rates or (2) there are tariffs implemented that severely restrict economic growth and cause inflation.

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Chief Investment Strategist

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