CONCENTURE WEALTH MANAGEMENT

Concenture Corner

March

March
2025

Beware The Ides of March

“We Interrupt This Program...”

Executive Summary

The secular equity bull market has paused for a correction. Corrections are a normal part of the investment process, and they are never fun. Corrections always happen on bad news. It is normal to have three 5.0% corrections and one 10% correction per year. With so much uncertainty hanging over... everything these days, the equity market may undercut the 10% and have a 12%-15% correction. Why? Because the Trump Administration nearly daily barrage of tariff announcement, coupled with news DOGE-driven budget cuts and layoffs, has created a significant amount of uncertainty for businesses and investors. Optimistically, we believe the markets are close to finding a bottom in prices. But the healing process will take time and lows are often tested. So, patience is the best attribute and guide for an investor.

We do not believe this correction is an end to the secular bull market, but a pullback in prices and valuations as the national and geopolitical chessboards are reset by the Trump Administration. Investors are mulling the continuous changes to long-established policy and practices of the American government and, as Treasury Secretary Scott Bessent put it, “there’s going to be a natural adjustment as [the economy] move[s] away from public spending to private spending.”

There have definitely been many “special announcements” over the past seven weeks to interrupt what had been the regular programming of the economic landscape. One would expect policy changes that accompany a shift in a presidential administration from one political philosophy to another. And with the market anticipating those changes, we enjoyed a rally from November’s election to the market all-time high on February 19. But there’s a new sheriff in town, the “Tariff Sheriff” – and he is employing

(cont’d)

unpredictable negotiating tactics. While we continue to believe Trump's threats to enact tariffs are driven by a desire to open foreign markets to American exports, some tariffs may be likely to stay, with the goal of helping raise capital to offset the federal deficit. But the unpredictability and uncertainty of the Administration's moves make investors nervous, and the equity market doesn't know how to price in these new policies yet. *The risk is that this tariff war does continue to cause consumers and businesses to retrench. This could cause a self-induced economic slowdown and the equity market prices in a recession.*

We believe that once there is greater clarity in policy, investors will find they have the opportunity to take on positions that were more expensive a month ago. Those who took on these positions will still be rewarded through patience, in our view. *We believe the underlying themes of the secular bull market driven by the new innovations of artificial intelligence, blockchain, Web 3.0 and virtual reality remain intact. Note how no one is talking about this anymore.*

Our target for the S&P 500 this year remains 7200–7400 although the risk is rising, so we expect to revisit our outlook for this year. But we continue to believe that before the decade ends, the S&P 500 will reach 10,000–13,000, in our view. We believe leaps in productivity should make for increases in returns to capital leading to a robust earnings cycle with margin expansion.

The other 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 permanent tariffs implemented that severely restrict economic growth and fuel inflation.

What Is Driving The Downdraft In Equities?

Tariffs Are Drawing Capital Investment To The United States

Let's state the obvious: Tariffs are trade barriers. Trade barriers also take other forms, such as import quotas, licensing requirements, and so forth. The classic free-trade position is that products should be manufactured at the lowest cost and traded without restriction across national borders. This position has been adopted by the U.S., though somewhat less rigorously by most other countries. Beginning in the early 1980s, offshored manufacturing led to a decline in manufacturing jobs. This accelerated sharply with the U.S.–China Relations Act of 2000, which granted China permanent normal trade relations (NTR) status. China has since sought to improve its technology; grow its economy at the expense of its trading partners, particularly the U.S.; and, according to many accounts, steal intellectual property. China, like many other countries, especially in Europe, has raised considerable tariff and non-tariff barriers to imports to protect its own industries from foreign competition.

The manufacturing capacity of the U.S. has declined sharply, too. For instance, in 2022, there were only 5 large oceangoing ships under construction in the U.S., while there were 319 in Europe, 587 in Japan, 734 in South Korea, and 1,794 in China. In fact, nearly half the world's tonnage of oceangoing shipping is now built in China, according to the U.S. Commercial Shipbuilding in a Global Context.

While rebuilding the U.S. industrial base is strategically important, and President Trump has stated his intent to use tariffs as a revenue source, we believe his primary goal is leveraging them to open foreign markets to American goods. But we do believe the risk is some of the tariffs do stay as a measure to raise revenue for the government to offset the Federal deficit.

Businesses trading goods and services across borders must take into consideration the costs of trade barriers. In the case of services (such as call centers), trade barriers are often quite low, though for on-site services, there are H1-B visas for employers that allow employers to bring foreign workers into the U.S. on a temporary basis for specialty occupations. But for physical goods, tariffs and transportation are costs that businesses must weigh in deciding whether to manufacture a product in another country and transport it here to sell, repackage, or use in further manufacturing in this country.

There were de minimis tariffs until this year. Now some substantial tariffs are at risk of being imposed. Businesses must make new calculations to determine whether to continue importing these goods or to manufacture them domestically. Several firms have come to the conclusion that it is better to build domestically. For instance, Apple has announced it will invest half a trillion dollars in American manufacturing over the next four years: 25% tariffs on goods imported from China is a hurdle it does not want to overcome.

What Are The Concerns?

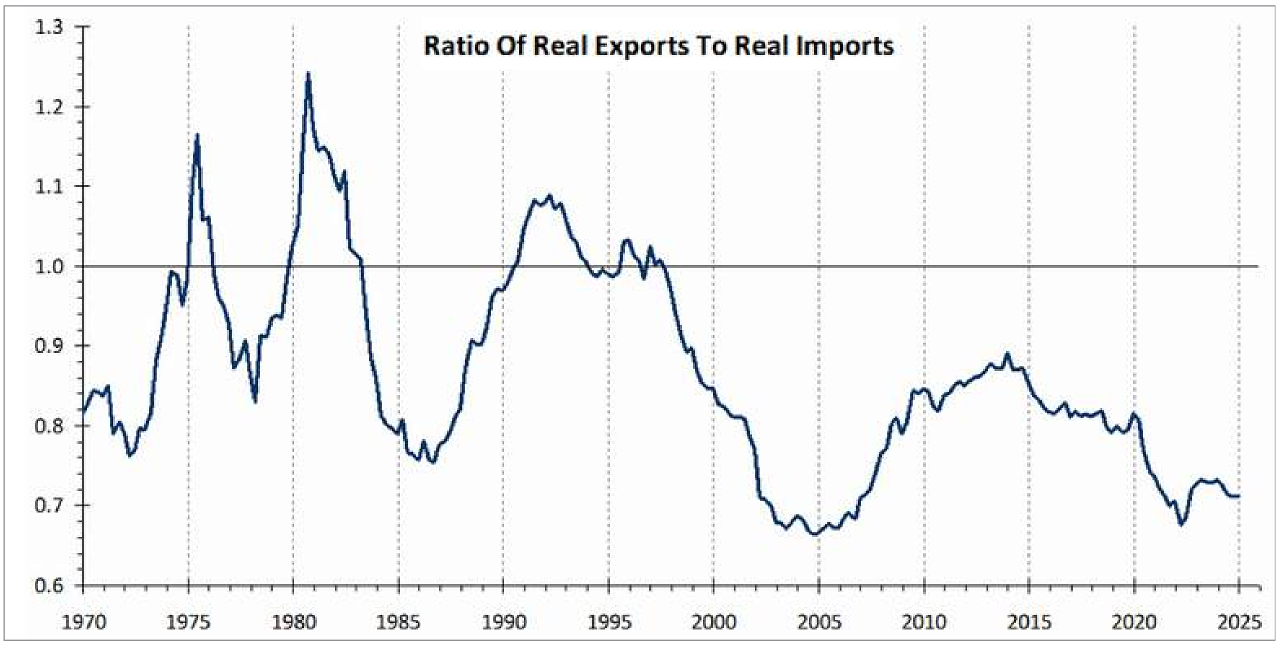
The problem for investors and businesses has four aspects to consider:

(1) Neither businesses nor investors can safely plan ahead: are the tariffs permanent, partly permanent, or merely temporary? Given that they're probably not altogether temporary, this question devolves into how much of the tariffs are permanent.

(2) Businesses and investors know they face at least a one-time increase in prices. Hopefully this doesn't evolve into repeated increases in price levels, but "hope" is a suboptimal investment strategy.

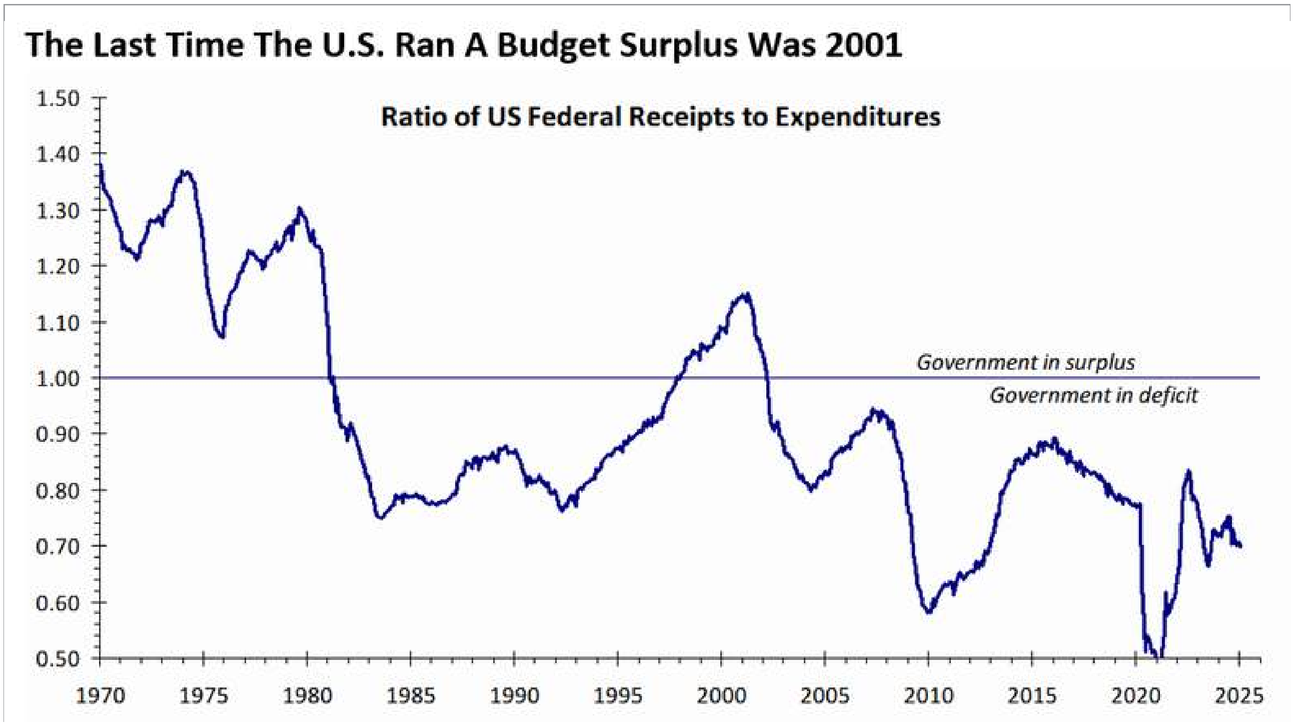
(3) There is the likelihood that other countries will respond by raising tariffs, too, and since other countries for the most part already have higher trade barriers than the U.S., businesses and investors must ask themselves whether this will result in further escalation by U.S., possibly even a trade war that hurts global economic growth. (4) Trump's negotiating positions change rapidly. While this might be an excellent strategy when negotiating a single business deal, changes without warning in international trade negotiations leave businesses and investors with a sense of queasiness akin to riding a looping roller coaster.

The Last Time The U.S. Ran A Trade Surplus Was 1997



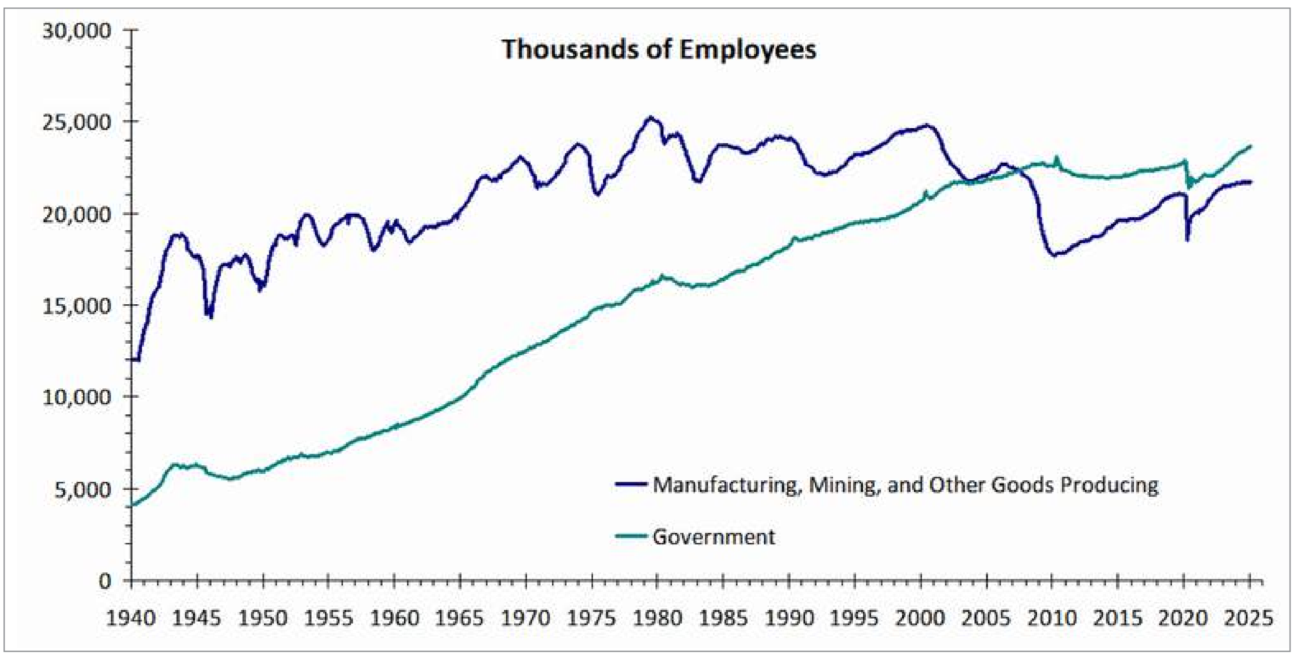
Source: Bureau of Economic Analysis, Sanctuary Wealth, March 6, 2025

The Last Time The U.S. Ran A Budget Surplus Was 2001



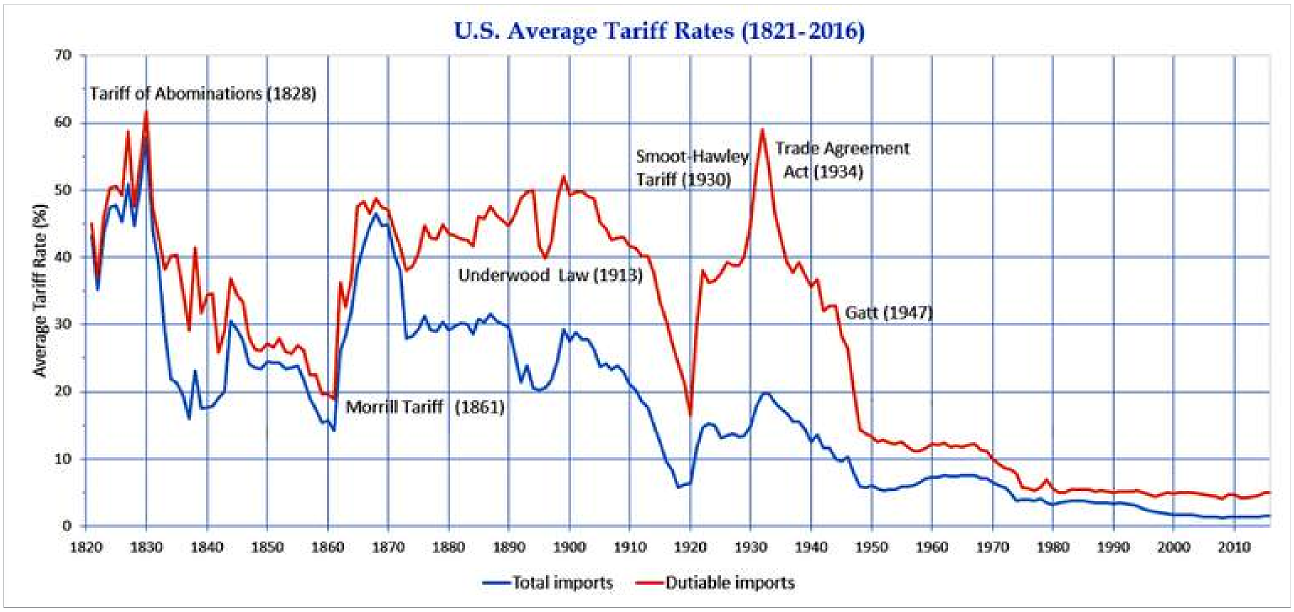
Source: Department of the Treasury, Sanctuary Wealth, March 9, 2025

Manufacturing Jobs In The U.S. Have Declined Sharply Since 2000



Source: Bureau of Labor Statistics, Sanctuary Wealth, March 7, 2025

Tariffs In The U.S. Are The Lowest Since 1821



Source: US Department of Commerce, Bureau of the Census, Historical Statistics of the United States 1789-1945, U.S. International Trade Commission, dataweb.usitc.gov

PRESS RELEASE
February 24, 2025

Apple will spend more than $500 billion in the U.S. over the next four years

Teams and facilities to expand in Michigan, Texas, California, Arizona, Nevada, Iowa, Oregon, North Carolina, and Washington

Reuters

Trump and TSMC announce $100 billion plan to build five new US factories

By David Shepardson and Steve Holland
March 4, 2025 1:25 AM CST · Updated 6 days ago

Forbes

The Stargate Project: Trump Touts $500 Billion Bid For AI Dominance

By Paul Smith-Goodson, Contributor
and Matt Kimball, Contributor
for Moor Insights and Strategy

Jan 30, 2025, 01:12pm EST

Trump's Confrontation With NATO Has Spurred German and European Rearmament

Another source of uncertainty, particularly for Europe, is Trump's push to end the war in Ukraine while pressuring NATO allies over their reliance on U.S. military support—and its financial burden on the U.S. The reaction from the Europeans was shock, anger, and a sudden commitment by the Germans to rearm themselves. Friedrich Merz, poised to be the next German chancellor, announced last Tuesday that Germany would spend €400 billion ($430 billion) on its military, saying that he vowed to do "whatever it takes" to rebuild German military might. The sentiment seems widespread across western Europe. Last Thursday, French President Emmanuel Macron said that France, which has nuclear weapons, will extend its "deterrence" over its European allies. The German government also announced spending €500 billion ($540 billion) on infrastructure. The equity markets are loving this news, whereas the bond market saw rates rise sharply. The huge positive from this fiscal spend should help stimulate a moribund European economy. European equity markets are already pricing this in, with a major breakout to record highs – *signaling the start of a new secular bull run.*

European Stocks Have Broken Out Of A 13-Year Base
EURO STOXX 50 Index (Top) With Moving Average Convergence-Divergence (Bottom)

European Defense Stocks Are Performing Well

European defense industry stocks have rallied sharply since the Trump Administration has been pushing back on NATO, but the German defense funding news has made these stocks go parabolic. The stocks certainly need to correct, but a bullish trend is certainly in place.

STOXX European Defense Industry (Top) With Moving Average Convergence-Divergence (Bottom)

Our View: Technology Is Still The Secular Leader, But It Is Correcting

We believe technology, especially artificial intelligence (AI), is in the process of transforming the way we live, work, and go about our daily lives. This transformation is only in its infancy, but it is accelerating rapidly, and adoption is entering the mainstream: JP Morgan has already put AI on the desks of all its employees.

Technology stocks were extended technically and were richly priced relative to the market as the Trump Administration took office. With the uncertainty around tariffs and DOGE, the Technology and Tech-related stocks have corrected sharply and are coming into valuation levels that investors will find very attractive, in our view. We are expecting a few more weeks of sharp volatility. We most likely need more clarity on tariffs for the Technology stocks and the market to find their footing.

CNBC

JPMorgan Chase is giving its employees an AI assistant powered by ChatGPT maker OpenAI

Hugh Son
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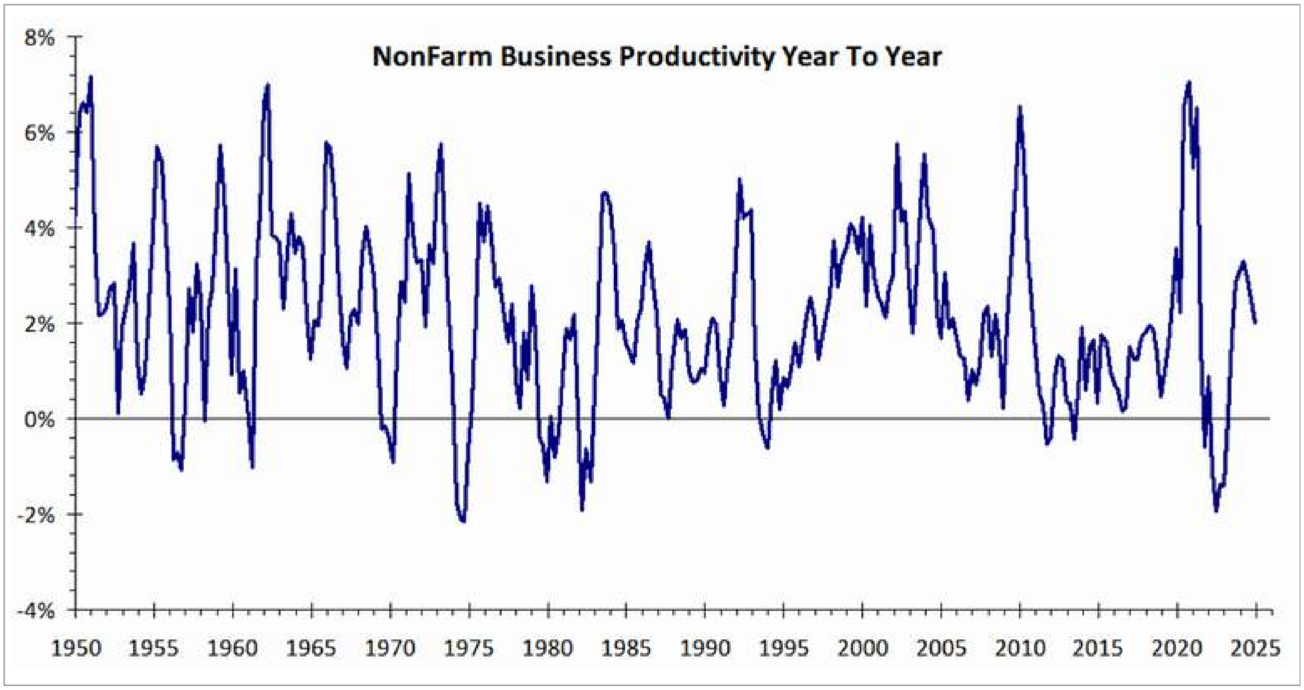
- JPMorgan Chase has rolled out a generative AI assistant to tens of thousands of its employees, the initial phase of a broader plan to inject the technology throughout the bank.

Productivity Numbers Already Rising And AI Should Improve The Numbers Overtime



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

Administration Policy Is Focused On Bond Yields, Not Stock Prices

In his first term, President Trump said he wanted to measure his success by stock prices. This time, he and Treasury Secretary Bessent are focused on lowering Treasury bond yields so that they can use the lower interest costs to extend the maturity of the federal debt, reducing the nation's borrowing expenses over the long haul. We believe this action is needed and will be welcomed by the markets overtime.

The markets now expect to see three interest rate cuts from the FOMC (Federal Open Market Committee) between now and the end of the year. But investors' interest rate expectations have been volatile. The Consumer Price Index (CPI) has eased investors' outlook on inflation as it came in better than expected for the month of February. We expect the trend in interest rates to remain downward. The 10-Year Treasury rate is tracking toward 4.0%. Our outlook this year has been for the 10-Year Treasury to be range-bound between 4.0%-5.0%.

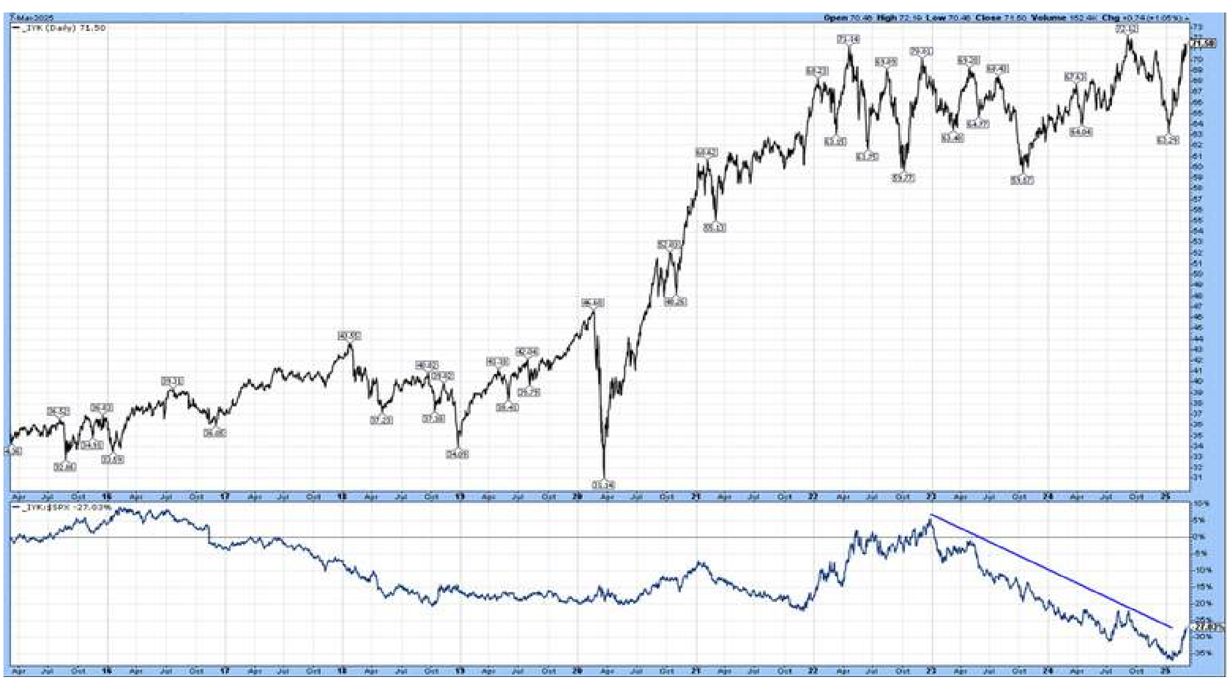
10-Year Treasury Yield With 200-Day Moving Average (Top) And Stochastics (Bottom)

Defensives Perform Well During Corrections

Today we believe the equity market is not in a bear market liquidation of assets, but in a rotation of Cyclical to Defensive sectors. Rotations keep a bull market alive. The market is trying to price in the Trump Administration's new policies, which are not yet settled.

Three defensive sectors are performing well in this environment: Consumer Staples, Healthcare, and Telecommunications. We do not believe that these sectors are new emerging leadership but are serving as more conservative defensive positions within portfolios.

iShares U.S. Consumer Staples ETF (IYK) (Top) With Relative Price Versus S&P 500 (Bottom)



Healthcare Select Sector SPDR ETF (XLV) (Top) With Relative Price Vs. S&P 500 (Bottom)

iShares U.S. Telecommunications ETF (IYZ) (Top) With Relative Price Vs. S&P 500 (Bottom)

Watch For Signs Of A Bottom In Stocks

When the stock market sells off, it's easy to let your emotions get control of you. Keep a clear head: The drivers behind the secular bull market are very strong, and while there is policy uncertainty in the wind from Washington, which will clear, and the forces that have driven stocks higher will reassert themselves.

Just to reiterate, the main force behind the secular bull market is the technological innovation of artificial intelligence (AI), the impact AI will have on productivity, manufacturing, trade, medicine, and society as a whole. Along with this are the demands to boost AI: electricity and energy production, semiconductors and the other hardware to do it, and the software to direct it. None of this is going away because Washington is now focused on cutting its deficit and renegotiating trade agreements.

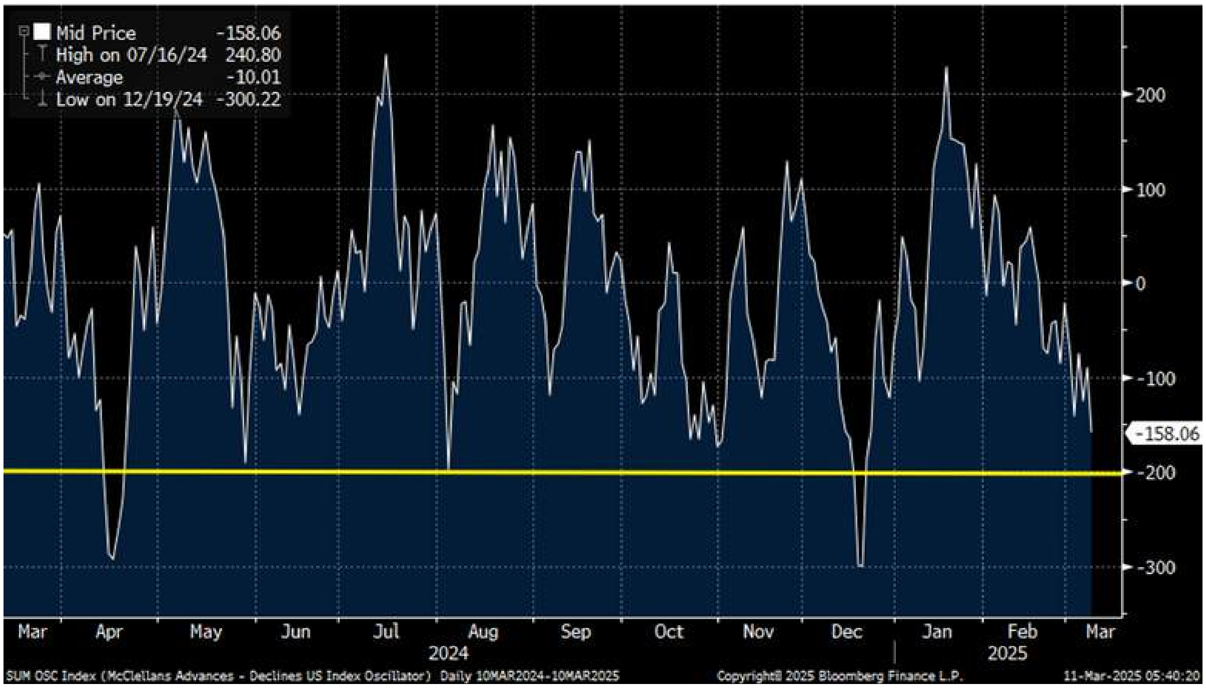
So, what signs do we look for that would indicate the market has reached a bottom?

Let's start with the cumulative difference of advancing stocks less declining stocks, the advance-decline line for the S&P 500. This isn't breaking down, indicating that this is a rotation from Growth to Defensive stocks. Rotations keep bull markets alive.

S&P 500 Cumulative Advance-Decline Line Shows Rotation Not A Bear Trend

The McClellan Oscillator looks at the breadth of the market and it is approaching a buy level at – 200, but it's not there yet. So, this indicator suggests that we should expect a continuation of the current market volatility and correction.

McClellan Advance-Decline Oscillator Generates A Buy At -200: We Are Close



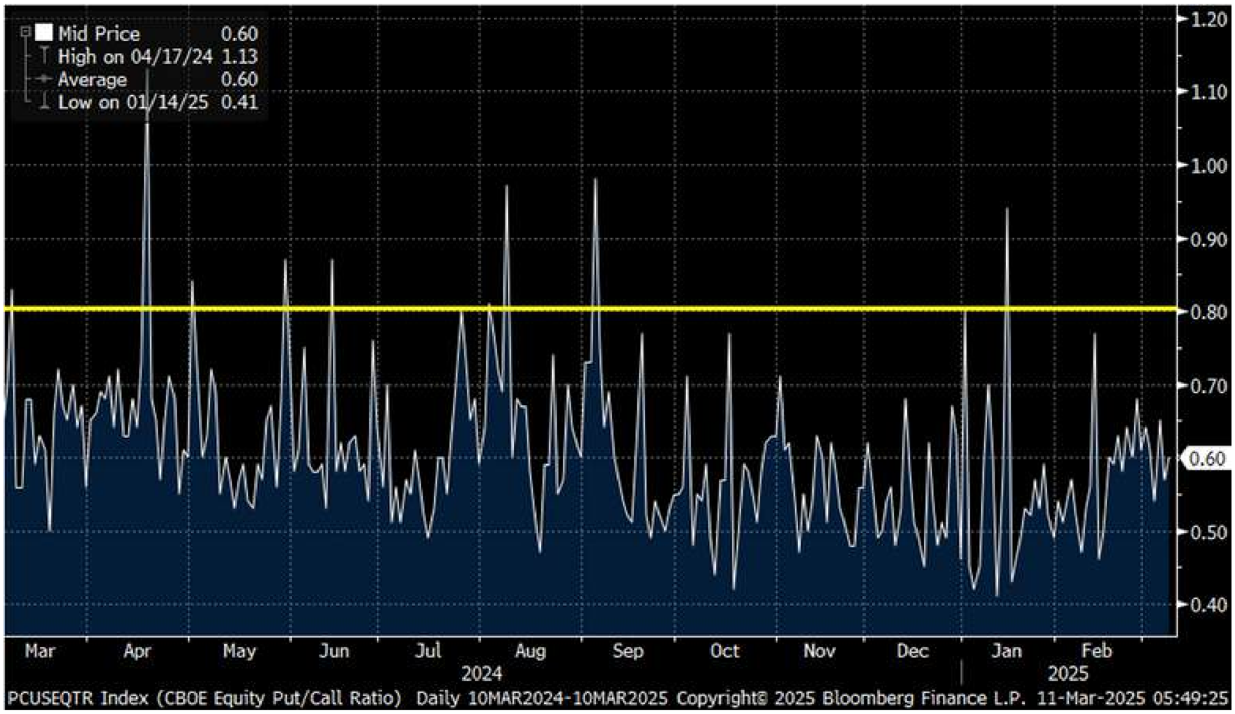
VIX Volatility Index Showing Fear

Cboe VIX volatility index has shot up to 30, showing fear in the markets. This is a contrarian indicator. Markets bottom on fear. The VIX index generates a buy signal at 20 or higher. We are there now.

VIX Index Spiking Near 30 Is A Bullish Sign, We Should Be Close To A Bottom

The Put/Call Ratio Still Does Not Show Fear – Would Like A Spike To 0.80

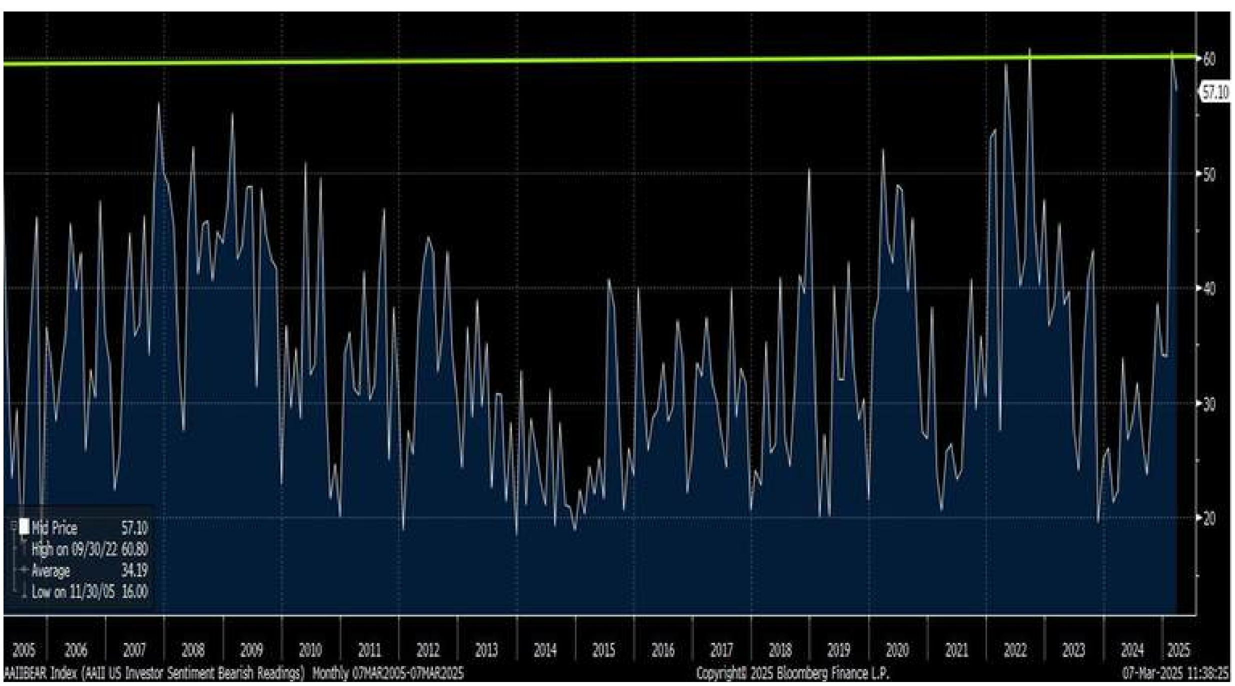
Cboe Put/Call Ratio Shows No Panic Yet – Need A Move to 0.80 Or Higher



A Contrarian Buy Signal From Individual Investors

The AAII Bearish reading for individual investors is flashing a contrarian buy signal. Investors have reached a panic level of sentiment at 60 over their six-month outlook for the equity market. This bearish view is not surprising given all the daily news on Trump's tariffs, the DOGE's firings, and the pulling of budgets for various government programs.

AAII U.S. Investor Bearish Reading Reaches A Buy Level



Bank Of America Sell Side Indicator Still Signaling A Positive Return

Bank of America's (BofA) Sell Side Indicator is based on its survey of Wall Street strategists' asset allocation recommendations. The thresholds for the buy and sell readings are a rolling 15-year +/- 1 standard deviation from the rolling 15-year mean. The indicator has been in use for 35 years and has a very good track record. It is a contrarian indicator: it is bullish when sell side strategists are overly bearish, and bearish when they are overly bullish. Its most recent reading suggests an S&P 500 return of 11% over the next 12 months. So, no bear market signal yet.

Sell Side Analysts Are Bullish, But Not Quite Extremely Bullish

We Prefer Growth Over Value In The Long Run, But Value Is Having Its Day

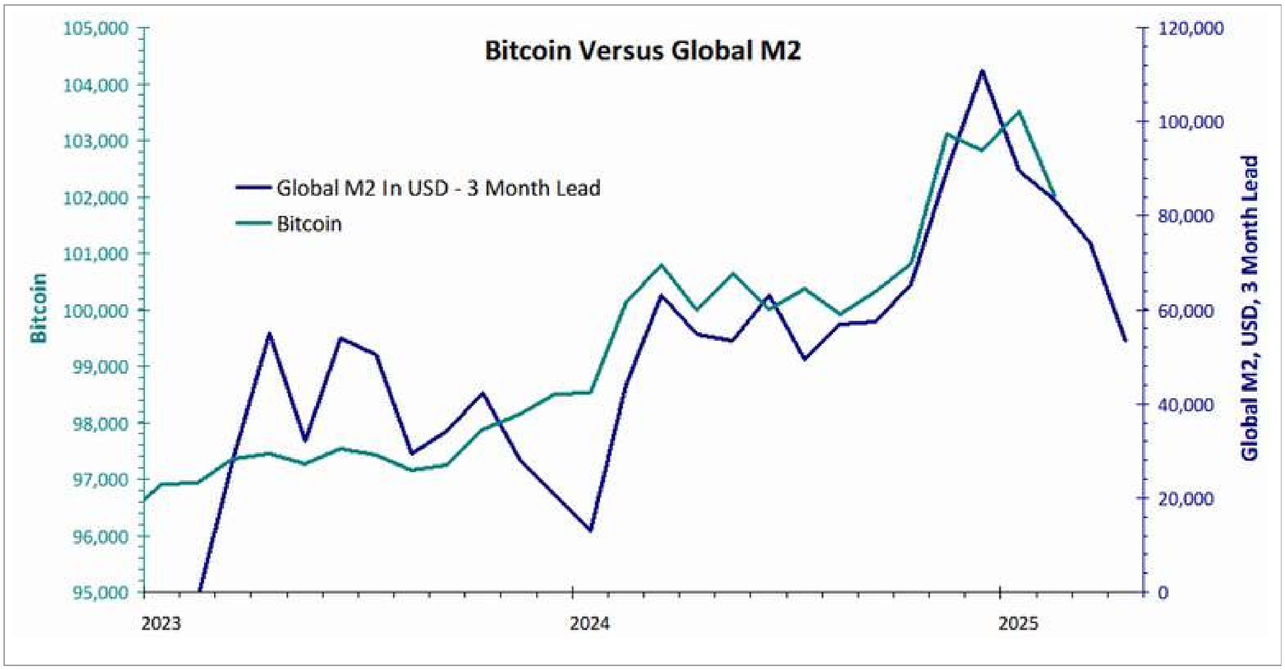
The sell-off is highlighting value opportunities in the market. Once this correction has run its course, we believe investors will return to favor Technology and Tech-related stocks for their superior earnings growth, driven by innovation. We believe we are in a Mega cycle for Growth that has never existed before in market history. However, every great expansion has retreats along the way, and Value could outperform Growth over the short run.

Russell 1000 Growth ETF (IWF) Vs. Russell 1000 Value ETF (IWD)

Bitcoin Continues to Perform

Bitcoin (BTC) was able to reach a record high in January at $106,00 and is now 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. Moreover, Bitcoin tends to follow with a lag the sum of intermediate money supply (M2) in the major trading nations around the world. Global M2 is declining, and we think it may have an effect on the price of Bitcoin. So, the combination of the drop in equity prices and falling global M2 money supply is putting pressure on BTC's price. Support for BTC is between $80,000 and $75,000. We maintain our target for BTC at $113,000-$150,000.

Bitcoin Has Tended To Follow Global M2 Over The Past 2 Years



Source: Bloomberg, Sanctuary Wealth, March 10, 2025

DISCLAIMER

Comments regarding Cryptocurrencies or Cryptocurrency-based securities are for informational purposes only. No part of this communication should be construed as investment advice and is not to be considered a solicitation with respect to the purchase or sale of any Cryptocurrency-related product.

Our View: This Is The Golden Age Of Investing

Gold continues to perform well. We believe this is because of concerns over inflation and the deficit, now coupled with turbulence in the equity market. Gold is positioned for a continuation of its bull run, but is very extended so the metal can correct. Our long-term target for Gold is $4000 per troy ounce.

Gold Is In A Bull Run Charging Toward $4000

Risks To Our Position

Uncertainty is the biggest risk to markets at this time. So, the biggest risk to our call is that the Trump Administration pushes a trade war so hard that overall sentiment sinks and the consumer stops spending and businesses stop hiring. This could lead the U.S. to a significant slowdown in the economy, causing a deeper market correction, possibly as deep as 20%. The Trump Administration clearly signaled it wants lower interest rates and this could be one way to achieve this.

Last Words

Corrections are always challenging for investors as they happen on bad news. Patience is the best policy when investing for the long-term. The longer-term fundamentals of innovation from AI, Blockchain, Web 3.0 and Virtual Reality are real and, in time, will boast corporate profits and margins, and expand earnings. We remain confident that we are still in a secular bull market with Technology the leader and will remain so over the decade. In the long-run our favored areas of the equity market are Technology, Financials and Industrials. We continue to prefer Growth over Value, Cyclicals over Defensives, and Large Caps over Small Caps. With Europe breaking out to enter a new secular bull market, we would buy on pullbacks. We are moving to a neutral weight in U.S. Equities and adding to Developed International markets. With interest rates expected to continue to fall, we recommend a neutral duration stance amid our expectations of a range-bound 10-year Treasury yield. We would take the risk to own mortgage-backed securities. Some profit taking in high yield may be prudent, given so many unknowns about the economy.

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