CONCENTURE
WEALTH
MANAGEMENT

February 2026

Why Market Turbulence May Favor Patient Investors

Executive Summary: Brace For Continued Volatility

The equity market has started the year experiencing high volatility. It feels like a whole year's worth of events compressed into just a month and a half. We expect this heightened volatility to persist through a good portion of 2026, which is seen as the norm for mid-term election years. Why? Because historically mid-term election years have been the most turbulent phase of the presidential cycle, with average drawdowns (corrections) of 19%. But it's important to note that the rallies that occurred off of the lows of those corrections were very strong, gaining an average of 31% one year later.

So far, the S&P 500 is following the historical pattern of a mid-term election year. Investors need to remain fearless and, to weather this volatility, portfolios need to be diversified. We maintain that the secular bull market remains intact, and our year-end forecast for the S&P 500 is 7500.

Market Rotation: Shifting Away from Tech Dominance

In recent months, we've seen a noticeable rotation in the stock market. Investors are moving their money away from large technology companies, which dominated the market for years, toward other sectors like Energy, Materials, Consumer Staples and Transportation. This rotation can have interesting effects on stock indexes, which are baskets of stocks used to measure market performance. So, while the S&P 500 has not reached a new all-time high, the Dow Jones Industrial Average (DJIA) and the Dow Jones Transportation Average (DJTA) have.

This divergence highlights the structural limits of cap-weighted indexes like the S&P 500, where Mega-Cap Tech still exerts outsized influence despite the broadening of the market. That imbalance helps explain why price-weighted or diversified indexes like the DJIA are hitting records while the cap-heavy S&P 500 is lagging, revealing how index construction shapes performance.

To understand this, let's compare two types of indexes based on the S&P 500 Index, the popular benchmark that tracks the performance of 500 large U.S. companies. The standard S&P 500 is cap-weighted, meaning bigger companies have a larger influence on the index's value because their stock prices are weighted by their total market value (i.e., market capitalization, or "market cap"). In contrast, an equal-weighted version of the S&P 500 gives every company the same weight, regardless of size. This means smaller companies in the index have just as much say as the big ones.

Cap Weighted S&P 500 And Equal Weighted S&P 500:

Equal Weighted S&P 500 Has Made A New All Time High

Source: Bloomberg, Annotations by Sanctuary Wealth, February 9, 2026

When money rotates away from a few large tech stocks, prices of many other stocks across the market may rise. This tends to lift the average stock price overall but can actually lower the value of market-cap-weighted indexes like the standard S&P 500, since those are so heavily influenced by the big tech names. The equal-weighted S&P 500, however, often performs better in these scenarios because it benefits more evenly from gains in a broader range of companies.

The accompanying chart compares the Invesco S&P 500 Equal Weight ETF (RSP) to the cap-weighted SPDR S&P 500 ETF Trust (SPY). In the top panel is the relative performance; the line reversing and then rising shows that the equal weighted S&P index is now outperforming the market cap index. The bottom panel shows the Moving Average Convergence/Divergence (MACD) indicator for RSP. When the MACD line rises above the signal line, momentum is positive, indicating a strengthening market breadth and continued rotation toward equal-weighted performance.

Invesco S&P 500 Equal Weight ETF (RSP) Vs. State Street SPDR S&P 500 ETF Trust (SPY) (Top) With Moving Average Convergence/Divergence (MACD) (Bottom)

Source: StockCharts.com, Annotations by Sanctuary Wealth, February 8, 2026

Small-Cap Stocks Joining The Rally

Looking longer term, small-cap stocks have underperformed large-cap stocks for about the past 15 years. This has created what we call a “secular relative price bear market,” where small caps have lagged behind in a prolonged way compared to large caps. To see this, we can look at the Russell 2000 Index versus the S&P 500 Index.

Russell 2000 Vs. S&P 500

15 Years Of Small Cap Underperformance

Source: FTSE Russell, Standard & Poor’s (S&P), Bloomberg, Sanctuary Wealth, February 10, 2026

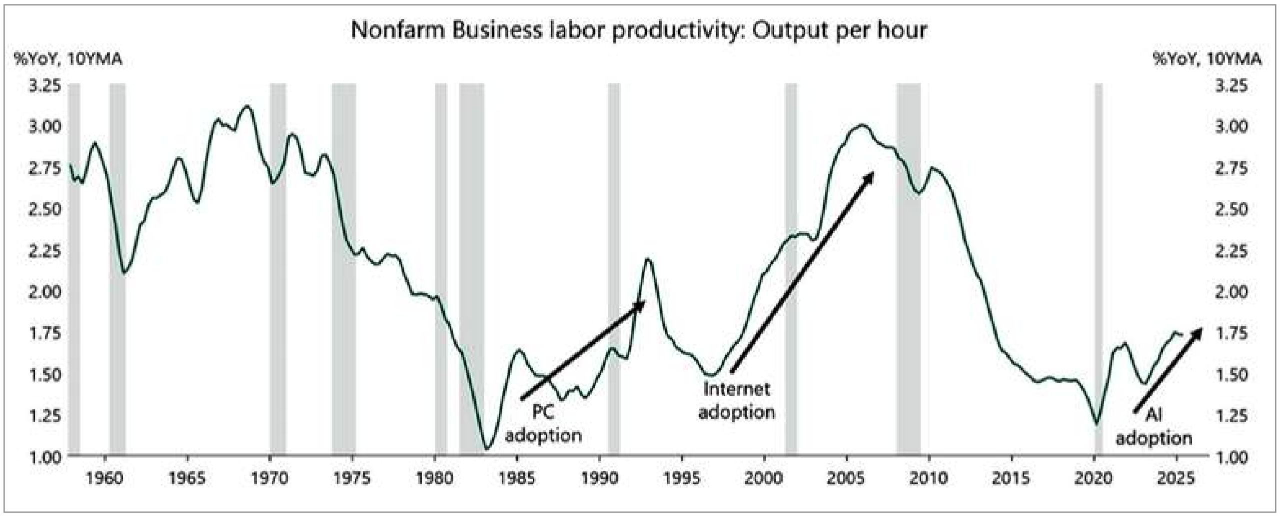
This underperformance may finally be ending. History shows that new market leaders often emerge before the old ones start to fade significantly. We think we may be seeing signs of this now, with broader market participation suggesting a potential shift in leadership.

Addressing Concerns Over AI Spending

One factor contributing to the recent rotation is growing investor concerns about spending on artificial intelligence (AI). Tech companies have poured hundreds of billions of dollars into AI development. But some investors worry this spending surge could slow if results fail to meet expectations — or create repayment risks for firms that issued bonds to fund AI investment.

In our view, AI is here to stay and is still in the early phases of development. We believe AI will continue driving productivity gains, as well as improvements in how efficiently workers and companies produce goods and services. Productivity is key to economic growth, as it allows more output with the same or fewer inputs.

We Are Likely In The Early Stages Of Another Productivity Boom



Source: Bureau of Labor Statistics (BLS), Macro Bond, Apollo Chief Economist Torsten Slok, January 28, 2026

Another factor contributing to the recent selloff in Technology was driven by a story concerning the AI company Anthropic, which negatively impacted software stocks. In early February 2026, Anthropic released new tools for its "Claude Cowork" AI agent, including plug-ins that automate tasks in areas like legal analysis, sales, marketing, customer service, and data processing. This sparked fears that AI could replace many traditional software products, leading to a broad investor concern. Software stocks lost considerable value in just a few days as investors worried about disruption to established companies.

In our view, this reaction has been overblown. While AI agents are impressive, they come with caveats. For example, these agents can sometimes do "dumb" things due to limitations in their training data or logic. Real-world examples include:

- Generating incorrect legal advice, like misinterpreting contract clauses because they lack nuanced human judgment.
- Producing flawed marketing content, such as emails with factual errors or inappropriate tones.
- Hallucinating (making up) data in financial models, leading to wrong predictions.
- Mis-executing simple tasks, like booking a flight to the wrong city because of ambiguous instructions.

At this stage, AI agents do not represent a fundamental change in the need for software.

Companies will still require tools to manage data, workflows, and operations. Instead, it's a shift in how software is applied and developed. Some individuals and small teams might get proficient with AI agents for basic tasks, but sophisticated applications – the complex programs for businesses – will still require professional developers and careful deployment and updating. Otherwise, you risk errors, inefficiencies, or even security issues.

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

Source: StockCharts.com, Annotations by Sanctuary Wealth, February 8, 2026

We see this as a necessary “shakeout” in the AI space, a period where hype gives way to reality, and only the strongest ideas survive. This is similar to past technology booms:

- The Dot-Com Boom of the late 1990s, which ended in a bust around 2000-2002, weeding out unsustainable internet companies but paving the way for giants like Amazon and Google.
- The Personal Computer (PC) Boom in the 1980s and 1990s, where rapid innovation led to market saturation and consolidations, but ultimately transformed productivity.
- The “Tronics” Boom (electronics craze) during the Go-Go Years of the late 1950s to early 1970s, when excitement over new electronic technologies led to overvaluation, followed by a correction that refined the industry.

In each case, the shakeout separated winners from losers and set the stage for long-term growth. We expect the same with AI in time.

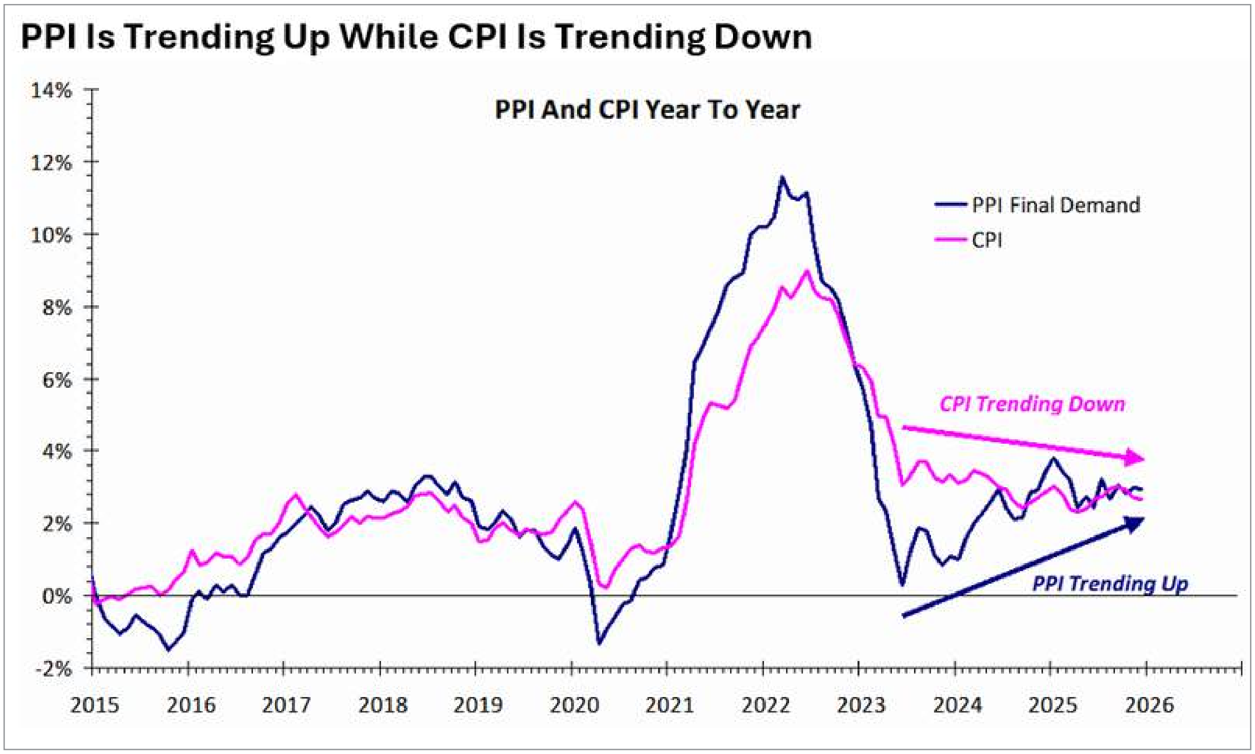
Is Inflation Coming On Faster Than Anticipated?

Inflation, which is the rate at which prices for goods and services rise over time, has been a key concern for investors and economists. Recent data suggests inflation may be accelerating more quickly than many had expected, potentially posing risks to both the stock market and bond market. One indicator of this trend is the Producer Price Index (PPI), which measures the average change in selling prices received by domestic producers for their output. This is often seen as a leading signal for consumer prices because producers may pass on higher costs to buyers. In contrast, the Consumer Price Index (CPI) tracks changes in the prices paid by urban consumers for a basket of goods and services, like food, housing, and transportation.

Recent trends show PPI rising faster than CPI. For example, as of December 2025, the PPI increased 3.0% year-over-year, while the CPI rose 2.7%. This gap widened in late 2025, with PPI accelerating due to tariff pressures and supply chain costs being passed through the economy. If inflation heats up faster than anticipated, potentially exceeding 3% by mid-2026, it could erode purchasing power, prompt the Federal Reserve (Fed) to slow interest rate cuts, and increase volatility in stocks and bonds.

Sustained higher inflation often leads to higher interest rates, which can make borrowing more expensive for companies, hurting stock prices and reducing the value of existing bonds. We don't believe we are close to this happening yet – but it is a risk in the coming years. Today we remain in the bullish part of having pricing leverage as most wages have been able to keep up with inflation. *A less common outcome would be for CPI to remain contained—or even decline—as shelter costs, which make up roughly 36% of the index, begin to ease, while PPI continues to rise. In our view, this divergence could create short-term market confusion but should not derail the broader equity bull trend.*

PPI Is Trending Up While CPI Is Trending Down



Source: Bureau of Labor Statistics, Sanctuary Wealth, February 8, 2026

Also offsetting inflation, in our opinion, is China exporting deflation (falling prices) to the rest of the world through its record trade surplus of $1.19 trillion in 2025. Weak domestic demand in China has led to overproduction and cheap exports in goods like electronics, autos, and solar panels, which could suppress global prices and help contain U.S. inflation. Meanwhile, U.S. industry is being reinvigorated through reshoring (bringing manufacturing back to the U.S.) and investment in sectors like semiconductors and clean energy, which is supported by policies like the CHIPS and Science Act and the Inflation Reduction Act. This resurgence could boost efficiency and long-term growth without adding immediate inflationary heat.

Insights From Professor Jason Furman

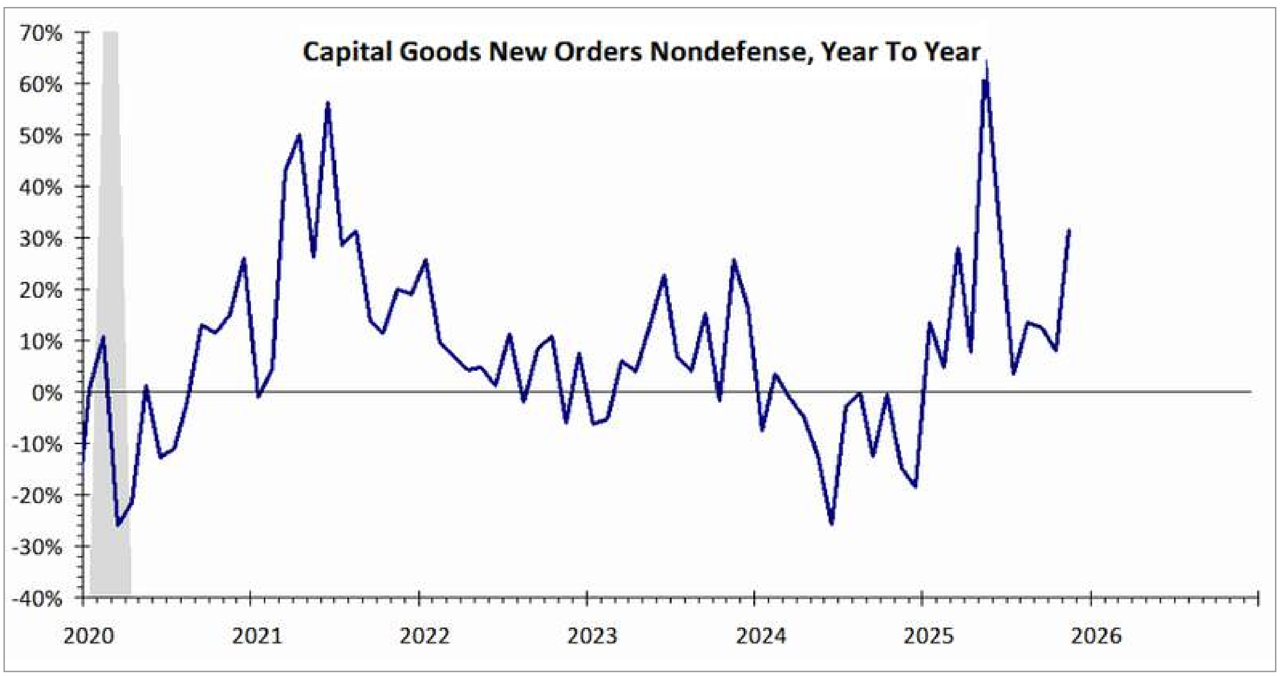
A notable perspective comes from Harvard economist Jason Furman, who analyzed U.S. GDP (Gross Domestic Product, the total value of goods and services produced in the economy) in a widely discussed paper and social media post from September 2025. Furman calculated that without investments in AI and data centers, key drivers of tech infrastructure, U.S. GDP growth would have been just 0.1% annualized in the first half of 2025, instead of the actual 2%-3% pace. He noted that information-processing equipment and software accounted for only 4% of GDP but drove 92% of its growth in that period.1

This analysis has been praised for highlighting AI's outsized role in recent economic strength and is considered accurate by many economists, including those at the Fed and major banks. However, Furman provided caveats: Absent the AI boom, interest rates and energy prices might have been lower, potentially stimulating other sectors and adding back about half the growth lost. Critics argue the calculation overstates AI's impact by not fully accounting for spillover effects, like job creation in related industries. Overall, the consensus is that AI is a genuine productivity booster, and its full effects may take years to unfold.

Offsetting Factors: Capital Spending And Manufacturing Momentum

Several indicators suggest the economy has offsets to potential inflation risks, supporting continued growth. Capital expenditures excluding defense (CapEx ex-Defense – investments in long-term assets like equipment and buildings, minus military spending) have been solid. Non-defense capital goods orders excluding aircraft – a proxy for business investment – rose 0.7% month-over-month in November 2025, marking five straight months of gains.

Capital Expenditures Ex-Defense Have Been Solid



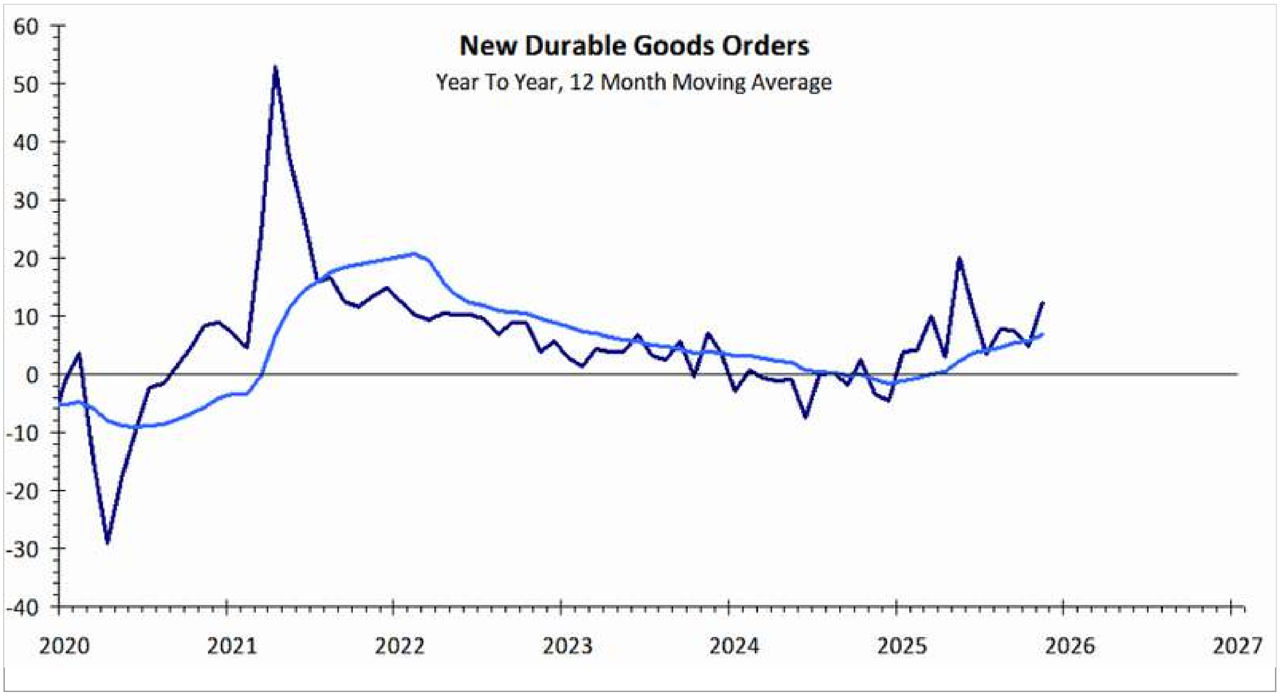
Source: Census Bureau, Sanctuary Wealth, January 29, 2026

Durable goods orders (orders for long-lasting manufactured goods like appliances or vehicles) surged 5.3% in November 2025, driven by transportation equipment. Unfilled orders (backlogs of orders yet to be shipped) also increased 1.4%, signaling sustained demand. Manufacturing is kicking in, with the sector's resurgence adding jobs and output – over 200,000 manufacturing positions were created in 2025. In addition, investments topped $1 trillion in reshoring projects.

[1]Original post on X (formerly Twitter): https://x.com/jasonfurman/status/1971995367202775284

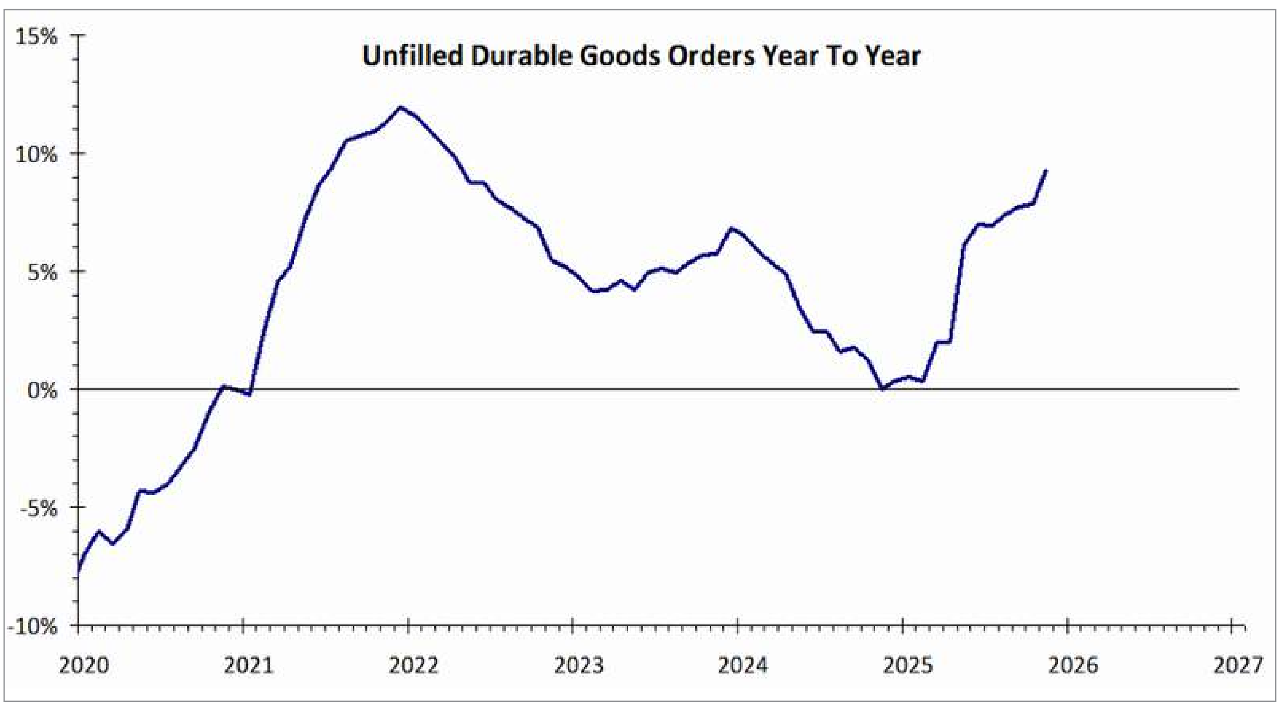
Fortune article summarizing the research: https://fortune.com/2025/10/07/data-centers-gdp-growth-zero-first-half-2025-jason-furman-harvard-economist/

Durable Goods Orders Are Strong



Source: Census Bureau, Sanctuary Wealth, January 29, 2026

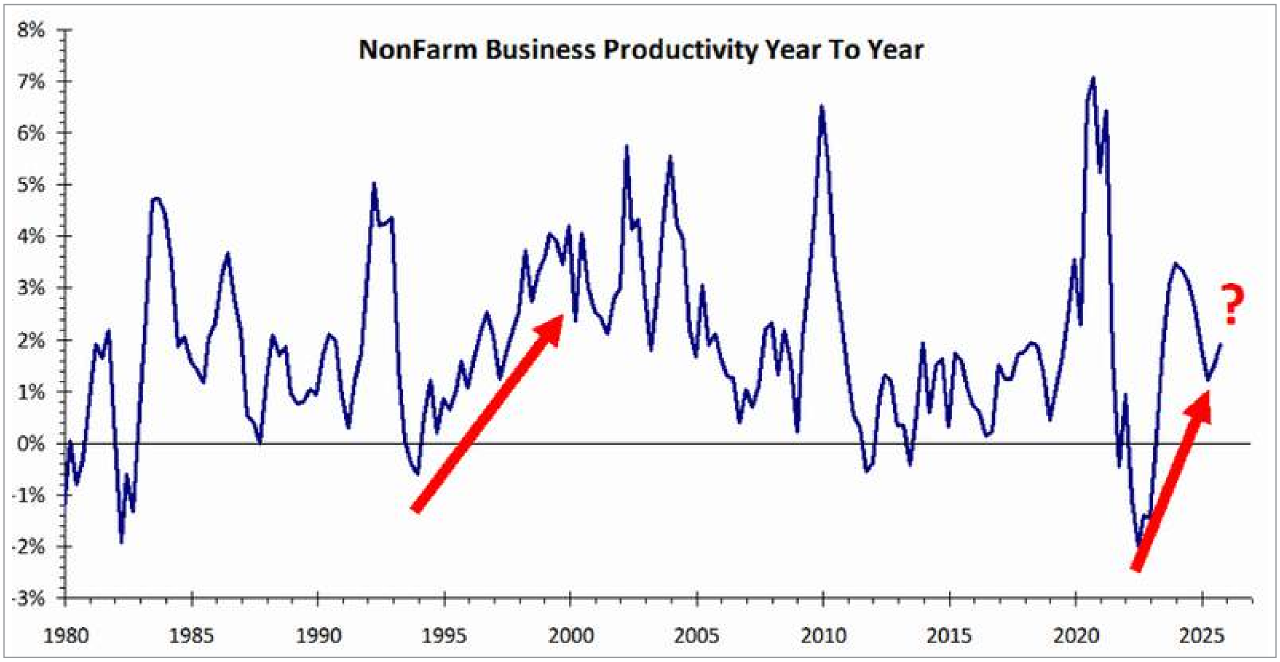
Unfilled Durable Goods Orders Are Rising, Pointing To Continued Industrial Expansion



Source: Census Bureau, Sanctuary Wealth, January 29, 2026

Productivity remains a bright spot, with nonfarm business sector productivity up 4.9% in 3Q25, the fastest pace in two years. This helps control unit labor costs (wages adjusted for output), which fell 1.9%, easing inflationary pressures.

Productivity Continues To Rise. We Think Much Of This May Be Coming From AI



Source: Census Bureau, Sanctuary Wealth, January 29, 2026

Positioning For Growth With Industrials

Industrials are leveraged to the buildout in AI and the upgrade and expansion in electric grid. Onshoring or the return of manufacturing to the U.S. is also benefiting this sector. Defense is an industry group in industrials which has also had significant growth.

iShares Industrials ETF (IYJ) (Top) With Relative Price (Bottom)

Source: StockCharts.com, Annotations by Sanctuary Wealth, February 8, 2026

Memory Chip Shortage and Semiconductor Exposure

While Information Technology has generally retreated since the end of the year, a shortage in memory chips (semiconductors for data storage) has driven prices up 200%-400% from January 2025 to January 2026, fueled by AI demand and limited supply. Prices of DRAMs (a type of memory chip) surged 171% year-over-year in some segments, with the prices of DDR5 (a high-speed variant) quadrupling due to AI data center needs.

Month	Price (USD)	% Change from Jan 2025
Jan 2025	$200	-
Jun 2025	$300	+50%
Dec 2025	$450	+125%
Jan 2026	$700-$800	+250%-300%

Source: TrendForce.com Counterpoint.com. No single memory chip index exists

The VanEck Semiconductor ETF (SMH) tracks major chip producers, including major memory chip manufacturers, which continue to benefit from tight supply and firm pricing. Semiconductor stocks remain the leaders in this secular bull market. We do expect the stocks to continue to have volatility.

VanEck Semiconductor ETF (SMH) (Top) With Relative Price (Bottom)

Source: StockCharts.com, Annotations by Sanctuary Wealth, February 8, 2026

Metals And Materials: Riding The Supply Shortage Wave

The Materials sector includes companies involved in producingraw materialslike metals, chemicals, and paper products. This sector is experiencing a significant boost due to global trends driving demand for metals such as gold, silver, copper, and other industrial metals. These trends include the rapid buildout of data centers for AI, increased defense spending amid geopolitical tensions, and technology requirements for EVs, renewable energy, and electronics.

State Street Materials Select Sector SPDR ETF (XLB) (Top) With Relative Price (Bottom)

Source: StockCharts.com, Annotations by Sanctuary Wealth, February 8, 2026

This surge is a global phenomenon. For example, AI data centers require massive amounts of copper for wiring and cooling systems, while defense budgets in countries like the U.S. and allies are ramping up production of weapons and infrastructure that rely on metals. Technology advancements, such as batteries and semiconductors, further amplify demand.

Absolute Shortages In Physical Supply

A key driver is the absolute shortage of physical supply – the amount of metal actually available for use. Above-ground supplies that can be accessed are being depleted faster than new mining can replenish them. This isn't just hype; global demand is outpacing production, and it takes years (often 5-10) to bring new mines online due to permitting, exploration, and environmental hurdles.

Adding to the pressure is "paper trading" in major markets like New York and London. This refers to financial instruments such as exchange-traded funds (ETFs), futures (contracts to buy or sell at a future date), and forwards (similar to futures but customized). These allow traders to bet on price movements without owning physical metal. However, the leverage (borrowing to amplify bets) in these markets can exceed 300 times the physical supply, meaning paper claims on metals far outnumber the actual ounces available. This creates fragility; when demand for physical delivery spikes, prices can surge or markets can become volatile.

Recent "shenanigans" in Shanghai, the main metals exchange in China, have contributed to dramatic run-ups and sell-offs in metals prices. In late 2025 and early 2026, a speculative frenzy led to record trading volumes, forcing exchanges to raise margins (required deposits for trades) 38 times in an effort to curb chaos. This action caused forced selling and price plunges, like silver dropping sharply from highs amid margin hikes and deleveraging as borrowed positions unwound.

China's role is pivotal. On January 1, 2026, China restricted silver exports by implementing a licensing system, allowing only 44 companies to ship the metal. China controls 50%-70% of global silver refining, making this akin to "calling a hand with a large pot in poker," forcing exposed players relying on cheap Chinese supply to reveal their weakness.

This has tightened global supply, pushing silver prices higher despite volatility.

The shortage remains structural. Silver and copper, which are far more industrial than gold, should resume rising as demand persists. Gold benefits from safe-haven status during uncertainty and is less tied to industry demand. Shortages extend to other metals critical for technology and energy transition:

- *Lithium, cobalt, nickel:* Essential for EV batteries; deficits projected by 2026-2029 due to surging demand.
- *Rare earths:* Used in magnets for wind turbines and EVs; supply concentrated in China.
- *Gallium, germanium:* Key for semiconductors; export controls by China in 2024-2025.
- *Antimony, tin, tungsten:* Vital for defense and electronics; U.S. import-reliant.
- *Aluminum, graphite, manganese*: For batteries and infrastructure; facing 10%-50% shortfalls by 2030-2040.

Various Industrial Metals In Shortage And Their Uses

Metal	Primary Uses	Shortage Drivers
Lithium	EV batteries, energy storage	Demand surge; 80,000-ton deficit by 2026
Cobalt	Batteries, alloys	Congo supply issues; quotas extended
Nickel	Batteries, stainless steel	50% growth needed by 2040
Rare Earths	Magnets, electronics	China dominance; export risks
Gallium	Semiconductors	Export bans to U.S.
Germanium	Fiber optics, solar	High risk from trade restrictions
Antimony	Flame retardants, batteries	Processing concentration in China
Tin	Electronics, soldering	Supply waves; defense needs
Tungsten	Alloys, defense	Import reliance; geopolitical risks
Aluminum	Infrastructure, EVs	Energy transition demand
Graphite	Batteries	42M-ton copper-like shortfall by 2040
Manganese	Steel, batteries	30% demand growth by 2040

Source: Sanctuary Wealth synthesis, drawing from U.S. Geological Survey (2025 List of Critical Minerals) and International Energy Agency (Global Critical Minerals Outlook 2025). February 7, 2026

These shortages are highlighted in reports like the U.S. Geological Survey's critical minerals list (now 60 items) and International Energy Agency outlooks.

We gathered this data mostly from the U.S. Geological Survey (USGS) and International Energy Agency (IEA). Our primary source is the USGS Critical Minerals List.

- Official USGS announcement and details: https://www.usgs.gov/news/science-snippet/interior-department-releases-final-2025-list-critical-minerals
- Full Federal Register notice with the complete 60-mineral list: https://www.federalregister.gov/documents/2025/ 11/07/2025-19813/final-2025-list-of-critical-minerals
- USGS "About the 2025 List" page: https://www.usgs.gov/programs/mineral-resources-program/science/about-2025-list-critical-minerals
- Full IEA Global Critical Minerals Outlook 2025 report (PDF): https://iea.blob.core.windows.net/assets/ef5e9b70-3374-4caa-ba9d-19c72253bfc4/GlobalCriticalMineralsOutlook2025.pdf
- Executive summary (highlights demand surges, potential shortfalls for lithium/copper by 2030s, China dominance in rare earths/graphite, and export restrictions on gallium/germanium/antimony): https://www.iea.org/reports/global-critical-minerals-outlook-2025/executive-summary
- IEA main page for the report: https://www.iea.org/reports/global-critical-minerals-outlook-2025

Long-Term Breakout In Metal Mining Stocks

Many metal mining stock ETFs are showing long-term breakouts, reaching above historical resistance levels on charts, signaling a secular upward trend. Copper miners, whose use is ubiquitous in modern society, are a good example.

Global X Copper Miners ETF (COPX) (Top) With Relative Price (Bottom)

Source: StockCharts.com, Annotations by Sanctuary Wealth, February 8, 2026

Energy: Navigating Geopolitical Risks

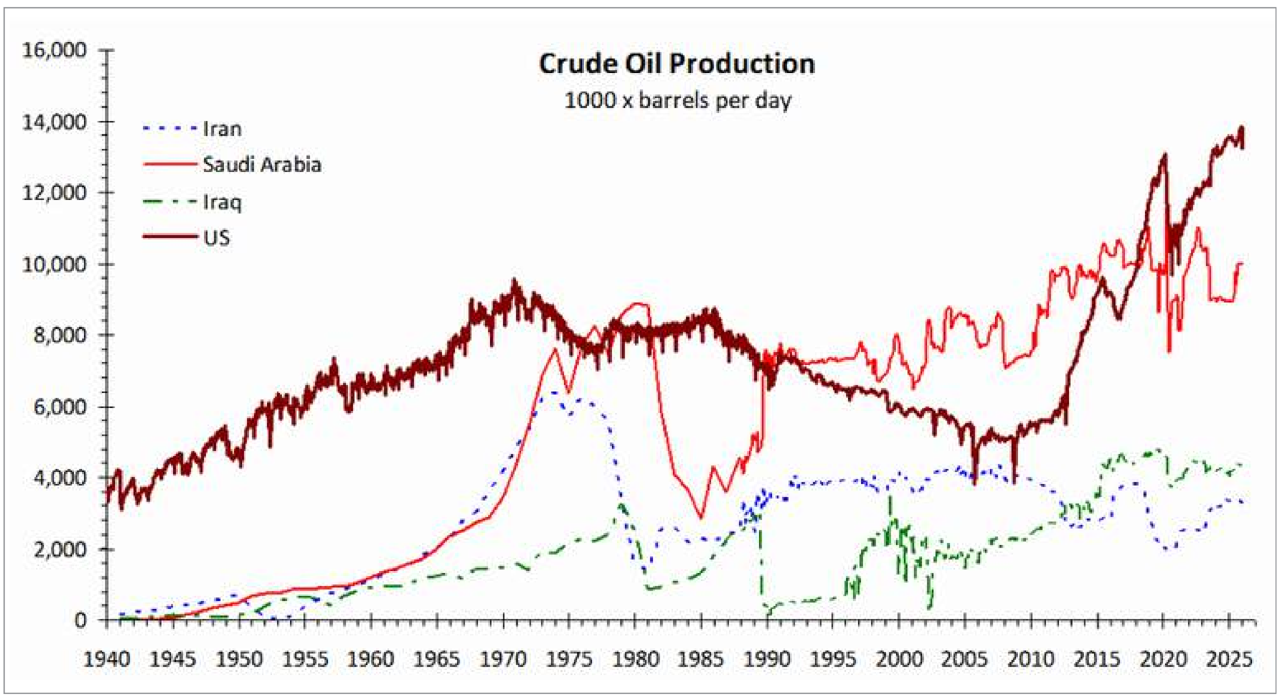
The energy sector includes companies involved in the exploration, production, refining, and distribution of energy sources like oil, natural gas, and renewables. In recent months, this sector has been influenced by strong global supply, geopolitical tensions, and shifting demand patterns. While oil prices have been volatile, the sector offers value through dividends and price appreciation.

Strong Supply Amid Global Dynamics

Global oil supply remains robust, even as demand growth slows. OPEC (the Organization of the Petroleum Exporting Countries), a group of oil-producing nations that coordinates production to influence prices, reported steady output in January 2026. According to preliminary data, OPEC crude production averaged around 30.9 million barrels per day in late 2025, with key members like Saudi Arabia at 9.7 mb/d. OPEC+ (which includes allies like Russia) has paused planned production increases through March 2026 to support prices amid seasonal weakness.

The U.S. has emerged as the world's top oil producer, outputting a record 13.6 mb/d in 2025, surpassing any single OPEC member. This dominance comes from efficient shale production in regions like the Permian Basin. U.S. output is expected to hold near this level in 2026 before a slight dip in 2027 due to moderating drilling activity.

The U.S. Is The World's Largest Oil Producer



Source: OPEC, U.S. Department of Energy, Sanctuary Wealth, February 5, 2026

This ample supply has kept crude oil prices in check, with West Texas Intermediate (WTI, the benchmark U.S. crude) trading around $63 per barrel as of early February 2026.

Geopolitical Risks: Focus On Venezuela And Iran

Geopolitical tensions add uncertainty to supply. In Venezuela, theU.S. actions arrested former President Maduro and seized unflagged oil tankers. This has created opportunities for U.S. over time but the moves risk broader market volatility if rebuilding efforts in Venezuela falter. Iran poses similar risks, with ongoing protests against the theocratic government, U.S. threats of strikes, and sanctions tightening supply. Iran exports are believed to be about 1.5 million barrels per day, but any military action that disrupts the Strait of Hormuz – a chokepoint for 30% of global oil – could cause a spike in oil prices. Recent U.S.-Iran talks in Oman aim to de-escalate recent tensions.

Refiners And Energy Equipment & Services: A Leading Subsector

Within energy, refiners (companies that process crude into fuels like gasoline) and energy equipment & services (firms providing drilling tools, rigs, and maintenance) are leading performers. The S&P Oil & Gas Equipment & Services ETF (XES) rose 30.42% year-to-date through early 2026, driven by AI data center buildouts, electrification, and infrastructure needs.

iShares U.S. Oil & Gas Exploration & Production ETF (IEO) (Top) With Relative Price (Bottom)

Source: StockCharts.com, Annotations by Sanctuary Wealth, February 10, 2026

These services benefit from Venezuela's potential $100 billion rebuild and U.S. shale efficiency gains.

Crude Oil Technical Outlook: Holding Steady

Crude oil has firmed as tensions with Iran have intensified. Oil looks to be in a trading range between $60-$70. In our view, only a significant escalation of the Iran situation would be sufficient to drive prices above $70. Should oil prices move above $70 we would expect a negative reaction within the equity market.

West Texas Intermediate Crude Oil Futures (Top) With Moving Average Convergence/ Divergence (Bottom)

Source: NYMEX, Bloomberg, February 9, 2026

Value In Energy: Dividends And Total Returns

Energy stocks offer attractive valuations and with many paying high dividends (e.g., 3%-5% yields) and focusing on total returns. Chevron (CVX) is one of the Dogs of the Dow for 2026, with a yield of 3.94%. Sector performance often follows improvements in Materials (as discussed earlier), where shortages drive upstream demand. As of February 7, 2026, Energy stocks represented 3.28% in the S&P 500, Materials 2.02%.

Small capital flows can amplify relative performance, similar to small-cap vs. large-cap rotations noted earlier, echoing how equal-weighted indexes outperform when leadership broadens.

Long-Term Breakout In Energy

Energy ETFs show long-term breakouts, reaching above multi-year resistance amid supply constraints and demand from AI/electrification. This is a major secular shift in the sector.

SPDR Energy ETF (XLE) (Top) With Relative Price Breakout (Bottom)

Source: StockCharts.com, Annotations by Sanctuary Wealth, February 8, 2026

Transports: Signaling Economic Strength

The Transportation sector often acts as ane conomic barometer. When goods are being shipped in greater volumes, it generally signals healthy demand and economic expansion.

A secular breakout refers to a long-term shift where asset prices move decisively above previous tops, potentially marking the start of a sustained uptrend rather than a short-term bounce. In early 2026, transportation stocks have shown such a breakout, with the Dow Jones Transportation Average (DJTA) reaching new all-time highs. This aligns with broader market strength and suggests underlying economic momentum.

This development is particularly significant under Dow Theory, a foundational principle of technical analysis developed over a century ago by Charles Dow. Dow Theory states that for a bull market (a prolonged period of rising prices) to be confirmed as healthy and sustainable, the Dow Jones Industrial Average (DJIA, tracking major U.S. companies) and the DJTA must move in the same direction. The "industrials" represent production, while the "transports" represent distribution. *When both make new highs together, it confirms genuine economic expansion rather than isolated gains.*

In early 2026, both the DJIA and DJTA hit record highs simultaneously, the first such confirmation in over a year, flashing a classic bullish signal. This suggests the ongoing bull market remains intact, with broadening participation beyond just Tech stocks.

Dow Jones Transports Have Broken Out To A New Secular Bull Market

Dow Transports (Top) With Moving Average Convergence/Divergence (Bottom)

Source: Bloomberg, Annotations by Sanctuary Wealth, February 9, 2026

International Markets: Opportunities Outside The U.S.

International stocks are showing renewed strength in 2026, potentially benefiting from a weaker U.S. dollar and changing global dynamics. We believe non-U.S. equity markets have entered a new secular bull market that can last up to 10-15 years.

The MSCI EAFE Index (covering developed markets in Europe, Australasia, and the Far East, excluding the U.S. and Canada) has performed strongly. As of late January 2026, it posted a 1-month return of about 5.22%, with a 1-year return around 31.84% (gross returns). This reflects solid gains in markets like Japan, the UK, and Europe, driven by reasonable valuations and improving economic conditions.

The MSCI Emerging Markets (EM) Index has been even more impressive, with a 1-month return of 8.85% and a 1-year return of 42.84% (these are net returns as of late January 2026). Emerging markets, including China, Taiwan, India, South Korea, and Brazil, benefit from themes like AI supply chains, digitalization, and resource demand.

MSCI EAFE Has Broken Out Into A New Secular Bull Market

iShares MSCI EAFE ETF (EFA) (Top) With Moving Average Convergence/Divergence (Bottom)

Source: Bloomberg, Annotations by Sanctuary Wealth, February 9, 2026

This ties into the small-stock revival discussed earlier (i.e., equal-weighted S&P 500 outperforming market-cap weighted amid rotation). Small caps and international/emerging markets often thrive when U.S. leadership broadens and the dollar weakens.

The shift away from largely tariff-free global trade, driven by rising tariffs and trade tensions, is reducing global demand for U.S. dollars. Fewer dollars are needed for trade settlements, putting downward pressure on the currency. A weaker dollar often boosts international stock performance for U.S. investors because foreign earnings convert to more dollars, and it makes non-U.S. assets more attractive relative to expensive U.S. ones.

Resource-rich emerging markets (i.e., those with commodities like metals, oil, and agriculture) perform particularly well in such environments, as dollar weakness supports commodity prices and export competitiveness.

iShares MSCI Emerging Markets ETF (EEM) (Top) With Moving Average Convergence/ Divergence (Bottom)

Source: Bloomberg, Annotations by Sanctuary Wealth, February 9, 2026

Bitcoin And Cryptocurrency: Navigating The Cycles

Bitcoin (BTC) has experienced dramatic price swings since its creation in 2009, as have other digital assets like Ethereum. In this section, we'll explore key concepts like "crypto winter," Bitcoin halvings, and related market dynamics, which can help explain recent volatility and potential opportunities.

Understanding "Crypto Winter"

A"cryptowinter"refersto a prolonged period of declining prices, low trading volume, and negative investor sentiment in the cryptocurrency market – basically a bear market where pessimism leads to widespread selling.

The most recent crypto winter occurred from 2022 to 2023, wiping out about $2 trillion in market value. It was sparked by high U.S. inflation, prompting the Fed to raise interest rates aggressively and making riskier investments like crypto less appealing. Key events included:

- The collapse of the Luna and TerraUSD cryptocurrencies in May 2022, which dragged Bitcoin to its lowest since 2020.
- The bankruptcy of the FTX exchange in November 2022 due to mismanagement of customer funds.
- Broader market contagion, where interconnected loans and projects failed, leading to forced sales.

During this period, Bitcoin fell from a high of about $69,000 in November 2021 to around $15,500 in November 2022, a drop of more than 77%. The market began recovering in late 2023, driven by renewed interest and approvals of Bitcoin investment products. Crypto winters typically last 1-2 years but can set the stage for strong rebounds as weaker projects fail and survivors innovate.

Bitcoin: The Last Crypto Winter Was 2022-2023

Source: Bloomberg, Annotations by Sanctuary Wealth, February 9, 2026

The Bitcoin Halving Phenomenon

A Bitcoin halving is a pre-programmed event in the Bitcoin network that occurs every 210,000 blocks mined, roughly every four years. (A block typically consists of 2,000–3,000 transactions.) It cuts in half the reward received by miners (users who validate transactions) for adding new blocks to the blockchain. This reduces the rate at which new Bitcoins are created, enforcing scarcity since Bitcoin's total supply is capped at 21 million coins. Halvings are designed to mimic precious metals like gold, where supply is limited, potentially driving up value if demand stays steady or grows.

Historically, halvings have been associated with price rallies due to reduced supply, but they can also lead to short-term volatility as miners adjust. The most recent halving in April 2024 reduced the reward from 6.25 BTC to 3.125 BTC per block. While halvings will continue until around 2140 (when the last Bitcoin is mined and rewards reach zero), the 2024 event is sometimes called "probably the last significant halving" because future rewards will become so small (fractions of a Bitcoin) that their impact on supply may be negligible compared to transaction fees, which could become miners' main income.

Previous Drawdowns After Halvings: Depth, Duration, and Recovery

A drawdown is the peak-to-trough decline in an asset's price. Post-halving drawdowns often occur as markets adjust to reduced miner rewards, leading some miners to sell Bitcoin to cover costs, combined with broader economic factors. Here's a summary of historical post-halving drawdowns based on past cycles:

Halving Year	Depth (Max % Decline Post-Halving)	Duration (Months to Bottom)	Recovery (Time to New Highs)	Key Notes
2012 (First)	~43%	~1-2 months	~4-6 months to surpass pre-drawdown levels; reached $1,100 by late 2013 (9,200% gain from cycle low)	Initial uncertainty post-halving led to quick dip, followed by rapid adoption-driven recovery.
2016 (Second)	~40%	~2-3 months	~6-12 months; peaked at $19,500 (2,888% uptrend from prior low)	Short-term decline amid global events; strong rebound as institutional interest grew.
2020 (Third)	~20-30% (initial dip amid COVID)	~1-2 months	~6 months; hit $67,000 by late 2021 (743% gain)	Pandemic amplified volatility; recovery fueled by stimulus and mainstream acceptance.
2024 (Fourth)	~19% (as of early 2026)	Ongoing (~10 months so far)	Not yet reached new cycle highs; up ~30% from halving-day price but sideways overall	Weaker performance due to macro pressures; potential for consolidation before upside.

These patterns show drawdowns are common but temporary, with recoveries often leading to new highs. Depths have decreased over time as Bitcoin matures and attracts more stable investors.

Patterns Following Post-Halving Drawdowns

Past halvings (2012, 2016, 2020, and 2024) do not consistently"begin a correction" immediately before the halving as a predictable pattern. Instead, there is often a rally driven by anticipation of reduced supply, then a post-halving bull run, often followed by a deep bear market correction which are shown in the table below. *Crypto markets are the most volatile asset class within asset allocation.*

Here are the numbers we found for maximum drawdowns.

Halving Cycle	Period	Max Drawdown
Cycle 1	2010-2013 (pre-2012 halving to peak)	~93%
Cycle 2	2014-2017 (post-2012 to pre-2016 halving peak)	~86-87%
Cycle 3	2018-2021 (post-2016 to pre-2020 halving peak)	~75-77%
Cycle 4 (Current)	2022-2025+ (post-2020/2024 halvings)	~52% so far (from $126K to $60K in 2025-2026)

We ran a linear regression through the maximum drawdowns from the previous 3 halvings and found a projection of down two-thirds from the maximum. The most recent peak was October 6, 2025, at $126,000. Two-thirds down would be $42,000.

Causes of Post-Halving Drawdowns

Drawdowns after halvings stem from several interconnected factors:

- *Halving Phenomenon:* Reduced rewards pressure less efficient miners to sell holdings, increasing short-term supply. This can create a temporary imbalance if demand doesn't immediately rise.
- *Macroeconomic Headwinds:* High inflation, rising interest rates, or global events (e.g., 2020's COVID-19) make risky assets like Bitcoin less attractive, amplifying dips.
- *Deleveraging:* This is the process of reducing borrowed positions (leverage) to avoid losses. In crypto, traders often use leverage via derivatives. Sharp price drops trigger margin calls (demands to add funds or close positions), leading to forced sales and cascading declines. For example, in 2022's winter, interconnected loans caused widespread deleveraging, erasing trillions.

Offshore Unregulated Crypto-Only Leveraged Structures (Perpetuals or "Perps") And Their Effects

Perpetual futures, or"perps," are derivatives contracts without expiration dates that track Bitcoin's price. The yallow high leverage (e.g., 50x-100x), meaning traders control large positions with small upfront capital. *Many perps operate offshore*, on unregulated platforms, evading U.S. rules.

Effects on the market:

- Volatility Amplification: High leverage leads to mass liquidations (forced closures) during price swings, creating cascades that spill into spot (actual Bitcoin) prices.
- Contagion Risk: Offshore perps contributed to 2022's winter collapses, as platforms like FTX used customer funds riskily.
- Liquidity Issues: In extreme events, auto-deleveraging (trimming winning positions to cover losses) can disrupt markets.

The Commodity Futures Trading Commission (CFTC), the U.S. regulator for derivatives, is pushing to "onshore" these products, bringing them under U.S. rules for better oversight, customer protections, and reduced systemic risks. This includes clearer guidelines for perpetuals on regulated exchanges.

We think Bitcoin can trade in a range of $60,000-$40,000. Bitcoin moved quickly to the $60,000 level, briefly resembling a crash-style decline, before staging a sharp rebound. We would expect continued volatility and do not see a bottom yet.

Brief Mention: Problems Surrounding the CLARITY Act in Congress

The Digital Asset Market Clarity Act of 2025 (CLARITY Act) aims to regulate digital commodities through the Securities and Exchange Commission (SEC) and CFTC, clarifying rules for offers, sales, and trading. It also prohibits the Fed from issuing central bank digital currencies (CBDCs) or offering direct services to individuals.

While the CLARITY Act passed the House of Representatives last summer, banks are resisting aspects of the bill in the Senate, fearing crypto could disintermediate banking, bypassing traditional banks by allowing direct peer-to-peer transactions or stablecoins. Their concern is that this could pull deposits from banks, eroding their role as intermediaries and reducing profits.

A Brief Word On The Fed And Kevin Warsh

Kevin Warsh hasbeen nominated by President Trump to serve as the next Chair of the Federal Reserve, succeeding Jerome Powell whose term as chair ends in May 2026. Warsh is a former Federal Reserve Governor (2006–2011) with a strong professional reputation from his time at Morgan Stanley and in the George W. Bush administration. While Wall Street reportedly favored BlackRock's Rick Rieder for his market-friendly approach, the Administration preferred Warsh, whose historically hawkish reputation on inflation could support the U.S. dollar and Treasury bonds, helping stabilize them even though the U.S. Treasury Department (not the Fed) ultimately controls currency policy. Still, he would likely lower interest rates in line with economic needs. If confirmed, Warsh is expected to refocus the Fed on core monetary policy. He also supports continued deregulation of the banks. The nomination itself could undermine some of Powell's remaining authority in the final months of his term by signaling an impending shift in leadership and policy tone, though Warsh's path to confirmation faces hurdles: Senator Thom Tillis (R-NC), the chair of the Senate Banking Committee, is withholding hearings until ongoing matters involving Powell and Fed Board member Lisa Cook are fully resolved.

Last Words

The S&P 500 remains in a secular bull market powered by strong economic growth, consumer resilience, and transformative technologies such as AI, Blockchain, Web 3.0, VR, and Robotics. Corporate earnings continue to rise, profit margins are strong, returns on equity support valuations, and there is $7.8 trillion in money funds on the sidelines. We believe that the S&P 500 can reach 7500 by year end and 10,000–13,000 by the end of the decade. Although we favor Growth over Value stocks longer term, Value stocks offer opportunities at this point in the equity market cycle. We would diversify portfolios to incorporate Value and mid-cap and small-cap equities. We maintain there is a structural shift toward the international equity markets and believe they have begun a new secular bull market including the emerging markets.

While mid-term election years are normally lackluster for U.S. equities, conditions still exist for a stronger than normal return. We do not believe any correction should derail the secular bull market.

We encourage investors to remain fearless and maintain patience through periods of market volatility.

Risks To Our Outlook

- Sustained inflationary pressures that lift 10-year Treasury yields near 5.0%.
- Destabilization in international trade from unexpected tariff escalation that interrupts market momentum.
- An outbreak of hostilities that lift oil prices above $70 per barrel.
- A significant rise in unemployment.
- A slowdown in consumer spending or corporate earnings. No such slowdowns appear in current data.

Corrections are opportunities, not reversals. Be Fearless!

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