SANCTUARY WEALTH

A WORD FROM
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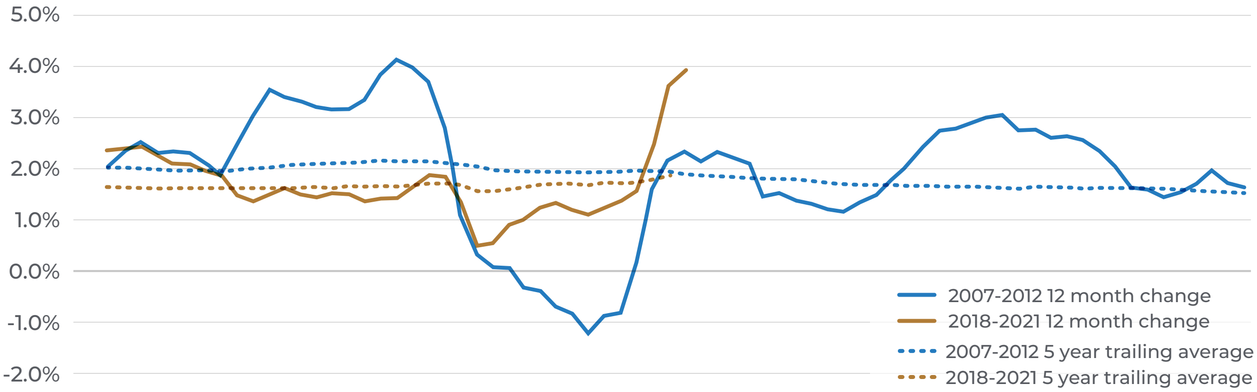
The S&P 500 posts its sixth straight positive month and notched another new all-time high in July. Major averages collectively had a solid month despite the increase in volatility. Wall Street's "fear gauge"—the CBOE Volatility Index (VIX)—jumped over 15% for the month to snap a five-month losing streak.

Implied volatility picked up amid a plethora of concerns such as potential peak earnings growth, continued inflation fears, increased China concerns and the acceleration in the spread of the Covid-19 Delta variant. The Nasdaq and Dow added 1% and 0.9% respectively in July, while the broad S&P 500 was up 1.7% over the same period. Utilities, healthcare, real estate and technology stocks led the S&P 500 higher for the month, while energy and financials lagged.

Historically, the month of July starts with firework shows across our beautiful country as we celebrate Independence Day. The fireworks persisted for the entire month and peaked on July 19th, with uncertainty surrounding the severity of the Delta variant and its effect on the global economy. The Dow Jones fell nearly 1,000 points on that Monday, and U.S. Treasuries were bought feverishly as the 10-year note tumbled to a multi-month low of 1.13%.

Halfway through Q2 earnings season, the building consensus is one of all-around strength with aggregate total quarterly earnings on track to reach a new all-time record and impressive momentum on the revenue side. Company results not only continue to beat forecasts by a wide margin, but estimates for the Q3 and Q4 2021 (and now even for 2022) are rising. “Peak Earnings” has been the dominant market narrative for several months. However, indications of economic activity in the back half of 2021 remain strong, and while earnings growth is not accelerating as much in the second half, analysts again appear to be underestimating the recovery, including into 2022.

U.S. Headline PCE Inflation



Source: Sanctuary Wealth Management/National Review

Inflation Concerns: (PCE) Personal consumption expenditure, an inflation gauge followed closely by the Federal Reserve, increased 3.5% year over year in June, slightly below the Street's 3.6% estimate. The U.S. Commerce Department reported the sharp acceleration to be slightly ahead of the 3.4% May increase and represents the fastest gain for a month since 1991. (It is important to remember that this indicator oddly excludes food and energy.) Fed officials have said they expect the inflation surge to be transitory as it has come largely from industries sensitive to the economic reopening, as supply chain bottlenecks and other issues likely fade. The Fed targets 2% as its desired inflation goal, though officials are willing to tolerate higher levels temporarily as the economy tries to get back to full employment. Dovish sentiment and justification for continuing current Fed stimulus underscore the risk on environment in the marketplace. This was again articulated by Fed Chairman Powell in the two-day Fed meeting last week. As Garth from "Wayne's World" *(SNL)* would say, "Party on Wayne."

China: Asian stocks saw significant selling pressure surface amid continuing concern about the spread of the Delta variant of coronavirus and investors failed to take inspiration from Chinese regulators' message that they would be more sensitive to markets after a recent crackdown. China's clampdown on its internet and technology businesses in July was disturbing on many levels. Volatility was high as Hong Kong's Hang Seng declined 9.9% on the month, while the Shanghai Composite declined to 5.4% in July.

Delta Variant: Investors are focused on the rising numbers of Covid-19 cases, as the Delta variant spreads across the globe. Anxiety hovers just beneath the surface due to concerns that the Delta variant could threaten the global reopening. Specific to domestic equity markets, shares of companies in sectors that were widely thought to benefit most from the reopening of the economy were hit the hardest in July. Covid-19 cases have grown this month, prompting public health authorities to recommend that vaccinated people resume wearing masks indoors in high risk areas. Yet, the Dow Jones industrial average closed at a record high five times this month and is up nearly 15% so far this year. The market's defiance to the Delta variant reflects the power of the Federal Reserve's accommodative policy, robust corporate earnings and the way our U.S. economy has dynamically adapted to the pandemic.

I am optimistic on equity markets. Although July was not a jaw-dropping percentage monthly gain for 2021, I was very impressed with the market's continued resiliency and the favorable investor sentiment. Overweight equities on the strategic horizon remain attractive. I continue to tilt toward cyclicality and maintain a quality bias, think blue-chips or essential companies. Current overweight to international equities is contingent upon the U.S. Dollar Index remaining under 95. I am encouraged with our improved outlook for earnings amid somewhat moderate valuations. Tactically, staying overweight equities as expectations for the restart to re-accelerate and interest rates to stay low, I envision the 10-year note in August to be tethered to 1.40%.

Please feel free to reach out for any assistance.

Best,

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