

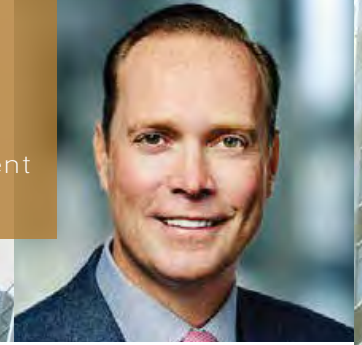


m F O R C E
CAPITAL
SANCTUARY ASSET MANAGEMENT

CIO CORNER

Halftime July 2022

A WORD FROM
JEFF KILBURG
Chief Investment
Officer



Markets slid down the tarmac into a dismal month end, revealing the S&P 500's worst first half in more than 50 years. As Q2 saw equities slip into a bear market and market sentiment sour, opportunity now knocks for investors for the back half of 2022.

I believe that equity markets will have the ability to find footing despite global headwinds inside of this turbulent mid-term election year. Although volatility expectations will most likely not abate any time soon, I expect U.S. equity markets to recover and move back into positive territory by year's end.

The S&P 500 suffered its worst first half since 1970. But its dismal performance is not necessarily an indication of what lays ahead for us in the balance of 2022. According to analysis by S&P Dow Jones Indices, there has been little to no historical correlation between the index's performance in the first and second half of the year.

Back in January, my 2022 Outlook suggested for portfolios to establish a much more defensive posture by focusing on valued essential names while reducing growth exposure as higher volatility expectations were on the horizon for the new year. Even with that accurate vision, I underestimated the historic amount of velocity that the Federal Reserve was going to inject. Its dramatic change of course on interest rates sent nearly all asset classes into a high-velocity tailspin as the Fed's one and only mission has now become combating runaway inflation. In the same remarkable manner that Tom Cruise was able to successfully accomplish his most recent flight mission in Top Gun's sequel, Maverick, I embrace the current market dislocations, and I am cautiously optimistic that this back half of 2022 will also end with a positive outcome just like this year's blockbuster movie of the year.

U.S. Equity Major Indices (Year To Date)

- S&P 500 Level % Change
- Nasdaq-100 Level % Change
- Dow Jones Industrial Average Level % Change
- Russell 2000 Level % Change



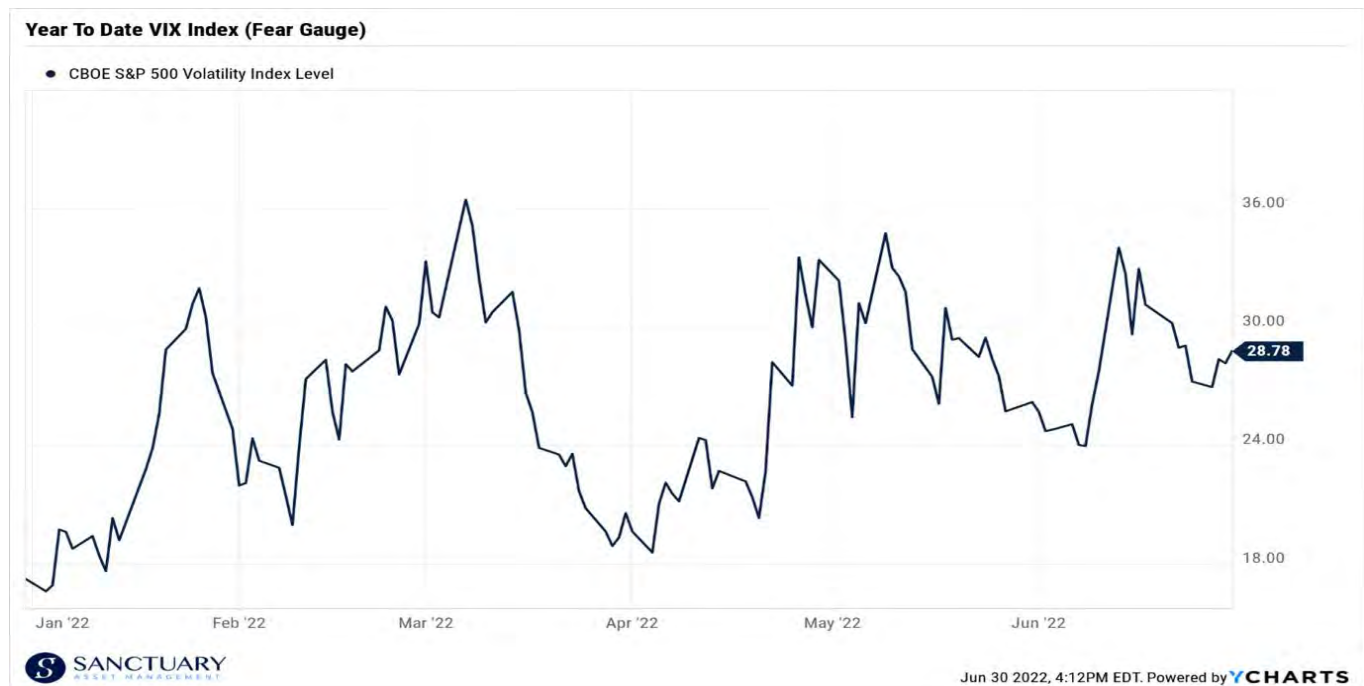
ve-loc-i-ty**noun:** the speed of something in a given direction

Velocity is the speed of something in a given direction. And, in my opinion, the bond market consistently as well as accurately provides directional leadership to equity markets. Despite my decades of trading U.S. Treasuries, the historic velocity in the 10-year note, rising from 1.53% to

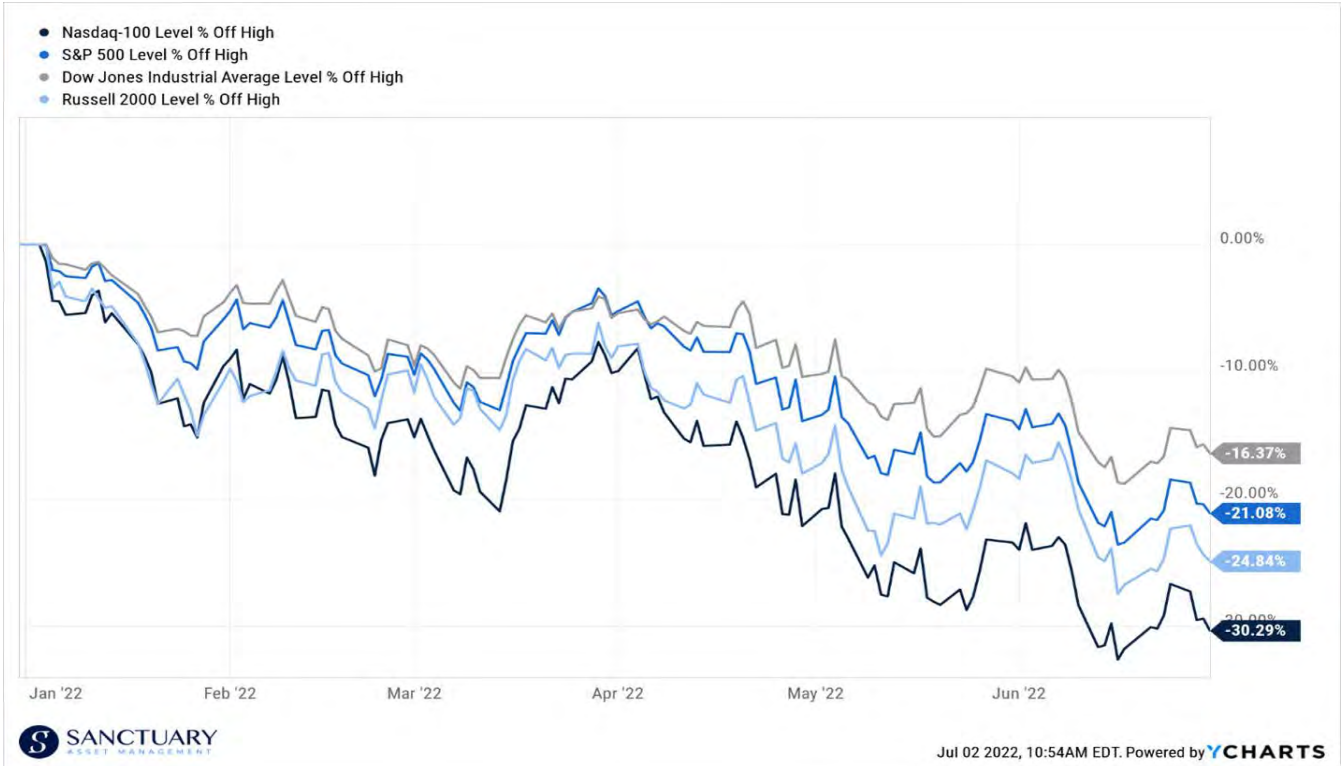
to more than doubling in yield by jumping all the way to another stratosphere at 3.5% in June, was jaw-dropping. For those who have seen Maverick (those who have not, go now!), you may liken the first two quarters of U.S. equity markets to the scene where the ace pilot is pushing the limit of his aircraft, seeking to achieve 10G's. This extremely intense exercise in his F-18 came with a ton of turbulence, like the first half for equities of 2022. The S&P 500 dropped 20.6%, its worst first six months of a year since 1970. The Dow Jones Industrial Average's 15.3% first half drop is its worst since 1962 (the year Tom Cruise was born), while declines of 29.5% from the Nasdaq Composite and 23.9% from the Russell 2000 are both indexes' worst first halves on record. Bonds found no refuge either, the Bloomberg U.S. Agg, a broad index of fixed-income securities, fell 10.7% since the start of 2022. That's also its worst first half on record, based on data going back to 1975, the year after I was born.

As for the second half of 2022, the outlook is far from certain. But recession talk on Wall Street and Main Street are forgetting the fact that growth is slowing, not stopping. I do not diminish the severity of the headwinds at hand: surging inflation, Federal Reserve rate hikes, Russia's ongoing war on Ukraine and the global recovery from the recent Covid-19 lockdowns in China, all of which have helped fuel fears of a coming global recession. (I am not in that camp.)

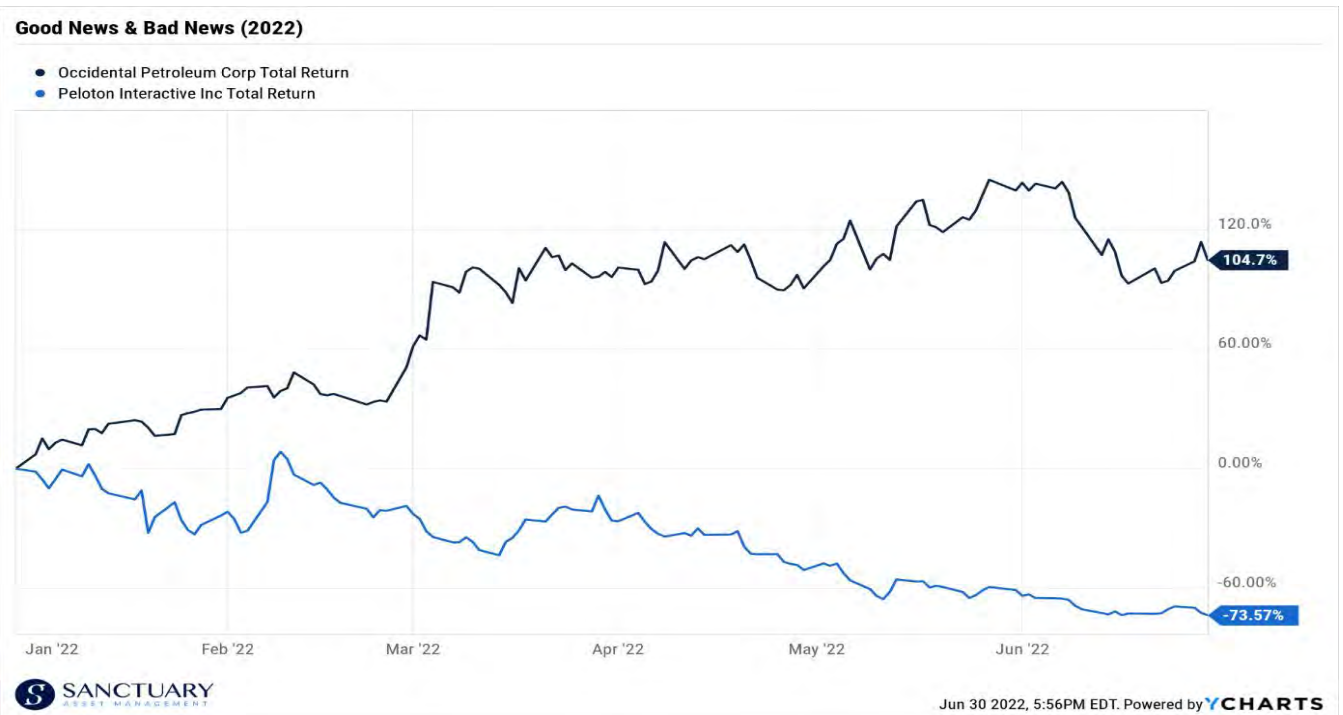
Uncertainty surrounding the Fed's high-velocity tightening policy, stubborn inflation and the never abating supply chain issues have kept the CBOE's VIX index elevated, but by no means are we seeing options traders push sentiment into panic territory.



Despite its late June rally, the S&P 500 struggled alongside all of the major U.S. equity indices to close out the 2nd quarter. A myriad of factors has caused this selling pressure, but the valuation of stocks overall has now become attractive on a historical valuation. The following chart speaks to the dramatic pullback that has pushed all major U.S. indices off of the all-time highs and into bear territory. The S&P 500 has shed more than \$9 trillion in market value during the current bear market. Nearly 400 of the S&P 500 stocks in the index are negative so far in 2022, while roughly 150 stocks have fallen by more than 20%.



Good News & Bad News: Amid the market's worst first half of a year in more than five decades, it has been a year of good news and bad news inside of significant sector dislocation. Once loved Covid-19 cult stock Peloton \$PTON has seen a falling from grace while energy stocks like Occidental \$OXY have screamed higher.



The market sees short rates peaking late this year with the Federal Reserve now possibly cutting rates in 2023. This high-torque economic cycle of 2022 continues to log miles and move right along, with expectations spurring emotions all the while whipsawing from day to day. The economic "Soft vs. Hard" landing debate is like the plane that keeps swaying in each direction on a very windy descent. Federal Reserve officials have played down the risk that the U.S. economy will tip into recession, even as they consider raising interest rates another 75 basis points in their July meeting. New York Fed President John Williams and San Francisco Fed President Mary Daly both acknowledged in late June that they had to cool the hottest inflation in more than 40 years but insisted that a soft landing was still possible for the U.S. economy. This debate between rate hikes and rate cuts has allowed the 10-year note to fall back towards 3%. I anticipate the 10-year note to continue to be the guiding light for equity markets and remain tethered to 3% with the possibility of drifting back under 2.75% later in the year. The pain has been inflicted in the bond market, the next six months should allow for rates to trade sideways and provide some recovery from the extreme velocity in this historic repricing of rates.

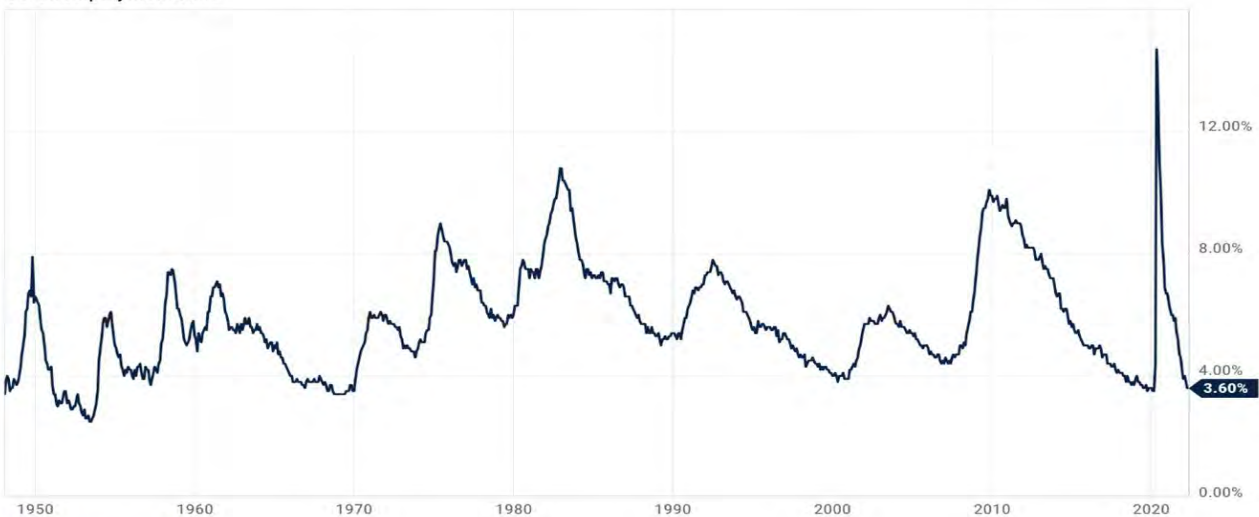
10 Year Treasury Rate



Jul 03 2022, 1:24PM EDT. Powered by YCHARTS

Jobs Data: The latest government payrolls data is projected to show a 273k increase for the month of June, based on a Bloomberg survey median. The unemployment rate is predicted to stay at 3.6%, while average hourly earnings most likely rose 5% from a year ago. Wage growth running well north of its long-run average and steady hiring suggest Federal Reserve policymakers will have the green light for another 75-basis point rate hike this month. Investors will continue to hang on every single word from Fed Chairman Powell as he has showed his ability to adapt quickly and navigate with precision after his policy misstep of buying the last few; he is by no means Maverick though.

US Unemployment Rate



May 31 2022, 9:35PM EDT. Powered by YCHARTS

U.S. Treasuries: The 10-year note dove back under 3% to end Q2, as volatility across the entire interest rate curve persists. To kick off Q3, we saw yields continue their drive lower. On Friday July 1st, the yield on the benchmark 10-year note traded lower by 8 basis points to settle at 2.88%, near its lowest level since late May. Meanwhile, the yield on the 30-year Treasury bond slid less than 1 basis point to 3.11%. In the front end of the curve, the 2-year Treasury rate, which is typically more sensitive to every twitch and move by U.S. monetary policy changes, was down 8 basis points at 2.83%. (Yields move inversely to prices.)

Critical Earnings Season: With Q3 just taking flight, the stock market is heading directly into the Q2 earnings season, and that is the next big test for the market and earnings season could also be a potential catalyst for the battered and bruised bulls.



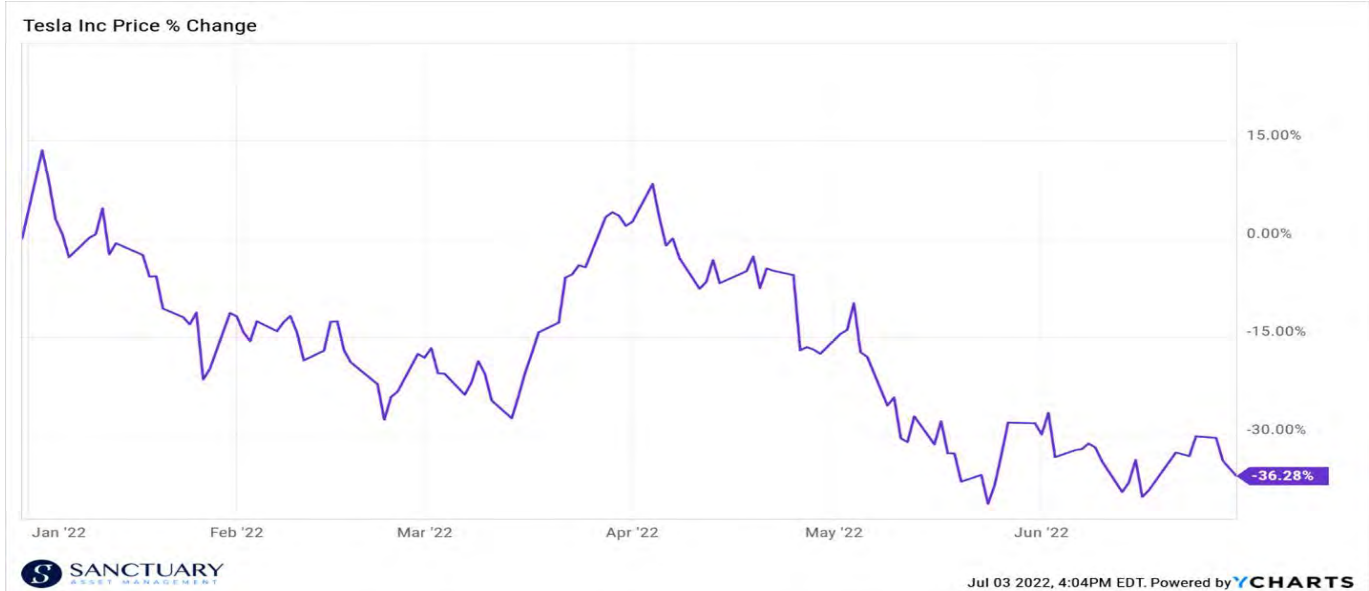
Select Sector SPDR ETFs

Corporate earnings season gets underway July 14 and 15, when JP Morgan, Citigroup and other big banks are set to report. Expectations for continued sector dislocations are high. Energy stocks are expected to see the biggest gains for the quarter, up more than 220% from last year's earnings. The second-best sector improvement is expected to come from industrials, up nearly 31%, followed by materials, up nearly 19%, according to Refinitiv. Sectors with the biggest declines are expected to be financials, down nearly 20%, and communications services, with earnings down 14%, also according to Refinitiv. Technology earnings are expected to rise by 2.5%.

Oil Prices: The energy sector has been a rare bright spot this year for investors, and with China reopening, demand should continue to drive higher, keeping prices well above \$100 per barrel for WTI. Conversely for consumers, the outlook is looking quite bleak. Few oil analysts see the price easing much in the 3rd Quarter. As of Wednesday, Brent crude, the international benchmark, was trading at \$111.50. West Texas Intermediate, the U.S. benchmark, was trading at \$108.50. Gas prices in the U.S. are above \$5 a gallon for the first time ever.

Mid-term Election Year After: As previously mentioned in my Outlook 2022, the typical year average is 6.8% Then, there's the 4th Quarter, which normally rises 4.1% on average. But, in mid-term years, the S&P 500 has bounced even harder, averaging a 6.4% advance. Looking back at the entire 85 years as we did, you may recall that the average return of the S&P 500 for the year after the mid-term election year is 15.1%. (Past performance is not indicative of future results.)

Elon Musk: As bad of a quarter it was for U.S. stocks, and it was worse for the automotive sector, specifically Tesla. Tesla's valuation has also suffered greatly over the quarter, which is at least in part due to Elon Musk's unsettling and off-the-cuff leadership style, never mind his disastrous bid to acquire Twitter. The drop in Tesla wiped out more than \$400 billion of the electric-vehicle pioneer's market capitalization. Hopefully, Musk can pull his companies out of the current tailspin.



POSITIONING FOR JULY

A critical earnings season is upon us, and I continue to favor essential names over small-cap or higher beta names. Think blue-chip, value orientated companies with strong balance sheets. After being called "too bullish" by my old friend and former CNBC colleague, Larry Kudlow, I had to remind him of the market's current positives, as we all know the negatives of being in a bear market. The painful process of rates normalizing, equities being revalued, and expectations of future earnings growth being tempered has just happened in the first half of 2022 with the force of nearly 10G's. Earnings growth is slowing, not stopping.

Key Takeaway: Equity markets have been forced to reprice and bear markets were induced due to rates, not profits. That is a rare occasion. Lastly, the Fed's paramount focus of reducing inflation is kicking in as the PCE data in June revealed that inflation is indeed moderating.

For assistance, please contact:

**Bradley G. Bruce, CPWA®, CEPA,
CIMA®, CPFA CEO, Founder,
Wealth Management Advisor**

Office:

**(817) 710-1839
1415 Ballinger St.
Fort Worth, TX 76102
bbruce@mforcecapital.com**

Sanctuary makes no representation as to the accuracy or completeness of information contained herein. The information is based upon data available to the public and is not an offer to sell or solicitation of offers to buy any securities mentioned herein. Any investment discussed may not be suitable for all investors. Investors must make their own decisions based on their specific investment objectives and financial circumstances. Investments are subject to risk, including but not limited to market and interest rate fluctuations. Any performance data represents past performance which is no guarantee of future results. Prices/yields/figures mentioned herein are as of the date noted unless indicated otherwise. All figures subject to market fluctuation and change. Additional information available upon request.

Securities offered through Sanctuary Securities, Member FINRA and SIPC.
Advisory services offered through Sanctuary Advisors, LLC, an SEC registered investment advisor.