



mFORCE Capital Corner

Please Contact

Bradley G. Bruce, CPWA®, CEPA, CIMA®, CPFA
CEO, Founder, Wealth Management Advisor
1415 Ballinger St.
Fort Worth, TX 76102
Office: (817) 710-1839
bbruce@mforcecapital.com



**May
2023**

Executive Summary

There is an old adage on Wall Street: Sell in May and Go Away – meaning the returns for the rest of the year will be muted. Why would they say this? Because most of the returns that are generated in the market tend to happen toward the end of the year. But no model has shown that this is a long-term strategy that beats the market.

What it does say is volatility will be present. The theme we have had this year is that the markets would have volatility and we see no reason to change this view. The equity market is very divided in what is working and what is not working; meanwhile the bond market is challenged with pricing in an a debt ceiling debate, strong employment, economic slow down and a banking crisis.

**Bloom or Bust:
Sell in May or Will
the Flowers
Blossom?**

Positioning

The best practice when investing is to be diversified. This helps to minimize risks but there is nothing that fully removes risk. In times of uncertainty, it's important to have Quality investments and to have a balanced portfolio. We are neutral or balanced across asset classes (Growth vs. Value; Large Cap vs. Small Cap) and slightly underweight equities with a bias toward fixed income and cash. Patience is a virtue when investing.

S&P 500: Range-bound Bias to the Upside Need a Break Above of 4200 – Support Near 200 DMA 3967

The S&P 500 has been stuck in a trading range since November '22 with resistance at 4200 and support range at 3900-3800. Price momentum has been improving with the S&P breaking above its 200-day moving average (DMA) and holding above it; by trending higher it is making higher lows. Near-term risk is the debt ceiling debate and continued concerns over the regional banks. Historically markets are volatile during debt ceiling negotiations and rally once the ceiling is lifted. The worst period was 2011 when the market fell 15% around the debt ceiling crisis and U.S. debt was downgraded, losing its triple A rating. But the market quickly recovered. The X date (deadline for a resolution because the government will run out of money) is now estimated to be June 1 – meaning we need a resolution soon on the debt ceiling. Congress can kick the can down the road by extending the ceiling by a month or more, but this would prolong the uncertainty and volatility.

Should the equity market break above 4200 and rally, we will be watching the breadth of the move. If the rally is selective with only a few stocks driving the performance it will be a weak rally but could last into the summer months. Many markets reach a topping process in the month of August, then markets correct in the fall as many mutual funds have their tax year-end in October. Then as the holidays approach, followed by the end of the year, the market celebrates and rallies. So we expect volatility to remain – but that volatility could lead to higher prices if the debt ceiling and banking concerns are resolved.

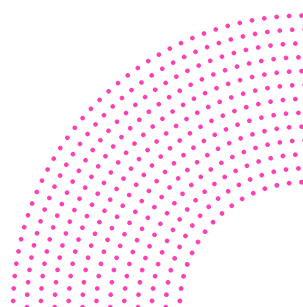
S&P 500 Still Stuck in a Trading Range of 4200-3800 with a Bias to the Upside

The S&P 500 broke above its 200-day moving average and has had a bias to the upside with higher lows despite it remaining in a trading range. The year-on-year rate of change is trending up, and the Relative Strength Index (RSI), a measure of price momentum, is also trending up after buy signals in October and February 2022. A break above 4200 means stocks could rally to test the old highs. The index would have to break below 3700 to indicate a test of the lows. We are biased to believe the market has a chance to break resistance at 4200 as most investors are positioned defensively. But the quality of the market as measured by breadth (the number of stocks advancing versus declining) will determine if the rally is healthy or at risk.

S&P 500 Large Cap Index



Source: Stockcharts.com, May 5, 2023



Nasdaq 100 Also Stuck in a Trading Range with a Bias to the Upside

The Nasdaq 100 has also broken above the 200-day moving average and has been rallying, creating higher lows. The year-on-year rate of change is trending up, and the Relative Strength Index (RSI), a measure of price momentum, is also trending up after a buy signal last October. The index is attempting a breakout that would lead to higher highs and possibly testing old highs. With several of the mega cap stocks breaking out (MSFT and META) on positive earnings, the index can charge higher. Resistance zone is 13720-15500. Risk is the negotiations of the debt ceiling and the ongoing regional banking concerns.

Nasdaq 100 Index

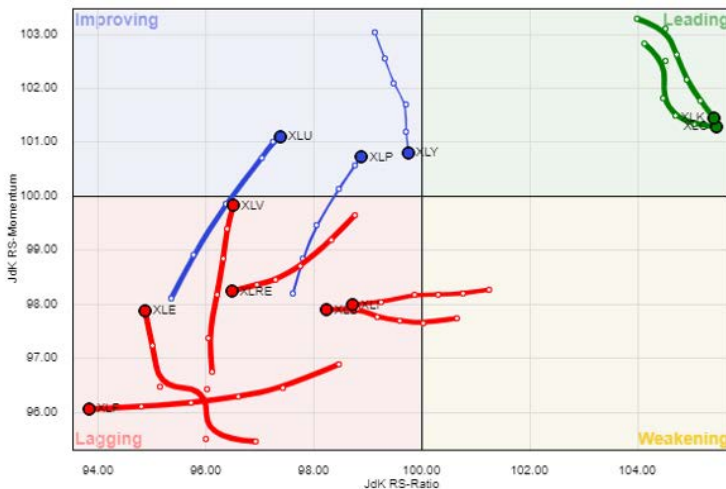


Source: Stockcharts.com, May 5, 2023

Sector Strength in Communications Services and Technology

The chart below is called the Relative Rotation Graph. It plots the last five weeks of the S&P 500 sectors by using the eleven SPDR Sector ETFs revealing their strength or weakness. Over the last five weeks, Communications Services and Technology have been the sectors leading the market rally. The sectors that have been correcting or lagging are Financials and Energy. This is a tactical picture of what is driving the recent market rally not necessarily an indication of who are the longer-term leaders in the market. The sectors seeing improvement are Utilities, Consumer Staples, and Consumer Discretionary. We remain skeptical that the mega cap technology names will remain leaders in the market as they represent a large percentage of the market indices. History has shown that when this occurs, the market eventually mean-reverts and normalizes areas of the market that get too large. One sector we are favoring is Utilities. It's a sector that has been weak due to higher interest rates. We believe rates can fall and this sector should be a prime beneficiary.

Relative Rotation Graph



Source: Stockcharts.com, May 4, 2023

5 weeks ending May 1, 2023

chart	visible	tail	symbol	name	sector	industry	price	%chg
📈	☑️	🟢	XLC	Communication Services Select Sector SPDR Fund			59.51	2.7
📈	☑️	🟢	XLK	Technology Select Sector SPDR Fund			150.68	-0.2
📈	☑️	🟢	XLU	Utilities Select Sector SPDR Fund			69.65	2.9
📈	☑️	🟢	XLP	Consumer Staples Select Sector SPDR Fund			77.70	4.0
📈	☑️	🟢	XLY	Consumer Discretionary Select Sector SPDR Fund			146.41	-2.1
📈	☑️	🔴	XLF	Financial Select Sector SPDR Fund			33.23	3.4
📈	☑️	🔴	XLE	Energy Select Sector SPDR Fund			84.25	1.7
📈	☑️	🔴	XLRE	Real Estate Select Sector SPDR Fund			37.57	0.5
📈	☑️	🔴	XLV	Health Care Select Sector SPDR Fund			134.28	3.7
📈	☑️	🔴	XLB	Materials Select Sector SPDR Fund			80.67	0.0
📈	☑️	🔴	XLI	Industrial Select Sector SPDR Fund			100.78	-0.4
📈	☑️		SPY	SPDR S&P 500 ETF			415.90	1.6

Source: Stockcharts.com, May 4, 2023

Sector Review

We review the sectors of S&P 500 and relative performance of each sector. The relative chart takes a sector and divides it by the S&P 500 index to determine if the sector is outperforming (rising) or underperforming (falling) the S&P 500 overall.

S&P 500 Technology – Showing Strength with Relative Neutral to Positive

Technology is leading market returns and likely will continue to do so over the near term. But to have a sustainable move, the relative chart would need to breakout and maintain the breakout to confirm leadership. As of now, we remain skeptical given the narrow move in the stocks that are rallying in the sector.

S&P 500 Technology



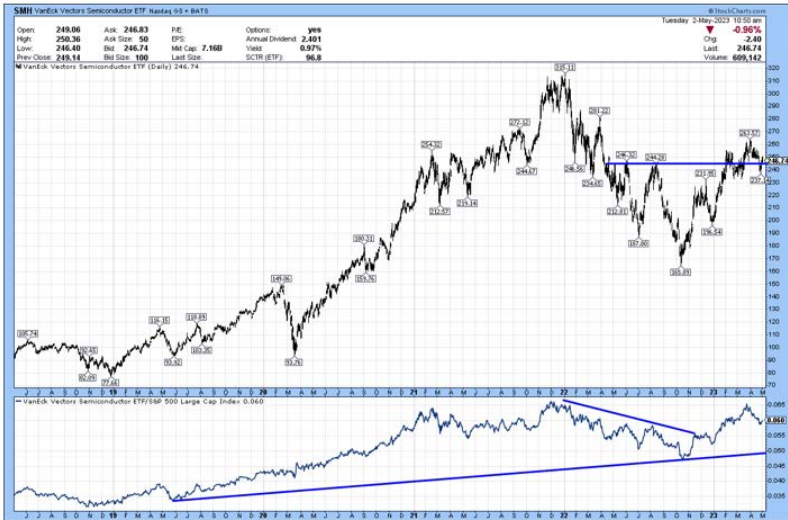
Source: Stockcharts.com, May 5, 2023

FANG Plus Index is leading the market rally – Risk is the Rally is Narrow



Source: Stockcharts.com, May 1, 2023

Semiconductors Have Been Leaders in the Technology Rally – We Like This Group Longer-term



Source: Stockcharts.com, May 2, 2023

Software and Services Have Also Been Strong in Technology – We Like This Area Longer-term



Source: Stockcharts.com, May 2, 2023

S&P 500 Communications Services Attempting to Break to the upside with Relative Confirmation



Source: Stockcharts.com, May 4, 2023

Consumer Discretionary is Lagging and Looks to Stay Weak

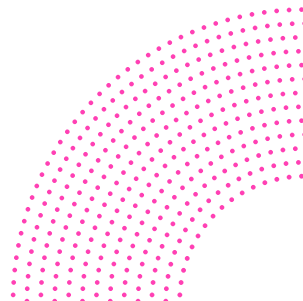


Source: Stockcharts.com, May 4, 2023

A Bright Spot in Discretionary has been Homebuilding with an Attempt of a Breakout



Source: Stockcharts.com, May 1, 2023



S&P 500 Consumer Staples is Improving with a Breakout and a Defensive Sector

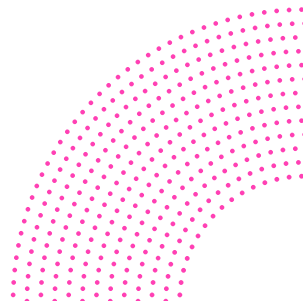


Source: Stockcharts.com, May 1, 2023

S&P 500 Financials are the Weakest Sector with the Relative Suggesting Continued Weakness



Source: Stockcharts.com, May 4, 2023



KBW Bank Index Remains Weak and the Relative Price Action is Negative

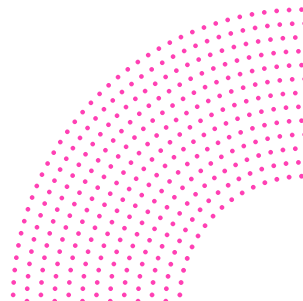


Source: Stockcharts.com, May 4, 2023

SPDR Regional Banking ETF – Worst Chart in the Markets and But May Rally Short-Term



Source: Stockcharts.com, May 4, 2023



S&P 500 Energy Sector is Under Consolidation – Bullish Longer-Term

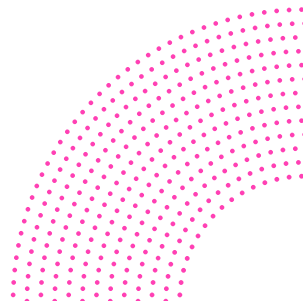


Source: Stockcharts.com, May 4, 2023

Crude Oil Consolidating With Downside Risk \$65-50. Long-Term Bullish Demand Profile



Source: Stockcharts.com, May 4, 2023



S&P 500 Industrials Under Consolidation – Infrastructure Bullish Sector

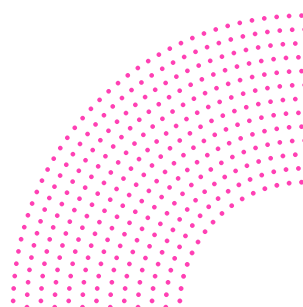


Source: Stockcharts.com, May 4, 2023

S&P 500 Healthcare – Improving with Long Term Bullish Demographics



Source: Stockcharts.com, May 1, 2023



S&P 500 Pharmaceuticals Showing Strength



Source: Stockcharts.com, May 3, 2023

S&P 500 Real Estate Attempting Price Bottom But Relative Still Bearish



Source: Stockcharts.com, May 1, 2023



S&P 500 Utilities Improving in Price and Relative Stabilizing - Benefits from Lower Rates

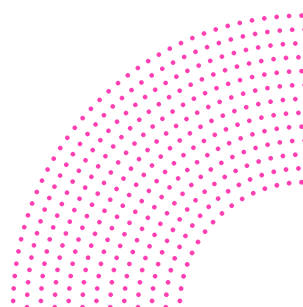


Source: Stockcharts.com, May 1, 2023

S&P 500 Materials Consolidating and an Infrastructure Beneficiary



Source: Stockcharts.com, May 1, 2023



Reuters/Jefferies CRB Index – Consolidating in a Bullish Trend

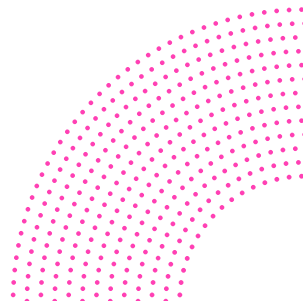


Source: Stockcharts.com, May 4, 2023

S&P 500 Dividend Aristocrats - Dividend Stocks Look Attractive Especially if Rates Fall



Source: Stockcharts.com, May 4, 2023



10-Year Treasury Yields Look to Have Peaked – Looking for 2.5%

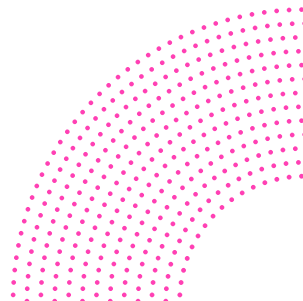


Source: Stockcharts.com, May 4, 2023

2-Year Treasury Yields Also Look to Have Peaked – Could Fall to 2.2%. Bullish for Divi Stocks



Source: Stockcharts.com, May 4, 2023



Bitcoin With a Technical Bottom and Breakout with Bullish Intermediate Pattern

The “Universal Monetary Unit”, also known as “Unicoïn”, is an “international central bank digital currency” that has been designed to work in conjunction with all existing national currencies.

“Today [4/15/23], at the International Monetary Fund (IMF) Spring Meetings 2023, the Digital Currency Monetary Authority (DCMA) announced their official launch of an international central bank digital currency (CBDC) that strengthens the monetary sovereignty of participating central banks and complies with the recent crypto assets policy recommendations proposed by the IMF. Universal Monetary Unit (UMU), symbolized as ANSI Character, Ü, is legally a money commodity, can transact in any legal tender settlement currency, and functions like a CBDC to enforce banking regulations and to protect the financial integrity of the international banking system.” (Source: ZeroHedge, April 15, 2023)

This development is just as big as the innovation of ChatGPT – but it’s not getting any mainstream press coverage. Yet!

Bitcoin to U.S. Dollar



Source: Stockcharts.com, May 4, 2023

Ethereum – Bottom With a Bullish Intermediate Term Pattern



Source: Stockcharts.com, May 4, 2023



Last Words

Regardless of (Data) Temperature, Market Enjoys A Holiday

The Fed has a one-track mind: it wants the economy to slow down. Throughout this month, as economic data comes in, hot data (stronger than expected) will be viewed as bad, and cold data (as expected or lower) will be viewed as good.

The markets continue to anticipate interest rate cuts by the end of the year. This is despite the clear rhetoric from the Fed that it is not going to cut rates this year. These opposing viewpoints may lead to disappointment.

While we expect volatility during May, historically markets tend to rally going into long holiday weekends. So, we believe Memorial Day will be bullish for the markets.

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