



 February 24, 2025

Equity Markets Remain In A Consolidation

First let's remember the month of February historically is one of the weakest months of the year.

But despite this, last week the S&P 500 and Nasdaq 100 both reached record all-time highs – though they failed to hold these levels as more tariff talk took hold. Also, the market did not like the new consumer confidence data showing that the consumer is becoming less confident. Then Walmart (WMT), the largest retailer in the U.S., reported better than expected earnings but had weaker than expected future guidance – which greatly disappointed Wall Street. So, the equity market remains in consolidation, which is bullish, in our view – though we should expect continued volatility. The Bucking Bull is still roaming the markets.

S&P 500 Remains In A Bullish Consolidation

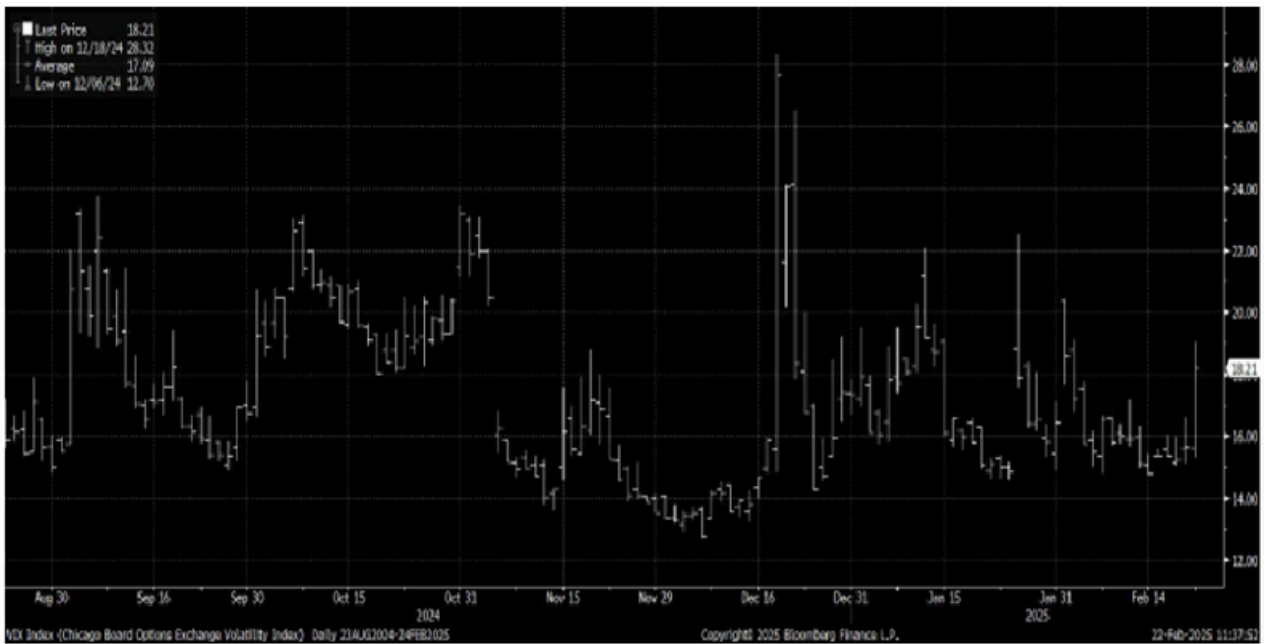


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Nasdaq 100 Also In A Bullish Consolidation



VIX Volatility Index: Vol Is Back And Could Hit 20-22 In The Buy Zone



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The Equity Bull Market Remains Intact In Our View

With deregulation in full swing, investor sentiment strong, and corporate earnings continuing to impress, we expect the bull market to keep running. If 10-year Treasury yields decline due to TGA spending injecting liquidity into the banking system – creating a liquidity bazooka – that would put a further tailwind behind stock prices. Also, if the Fed eases QT, this would be stimulative for risk assets.

President Trump also floated the idea of distributing \$5,000 checks to U.S. taxpayers, funded by savings from the Department of Government Efficiency (DOGE). Should this occur, it would also provide direct stimulus to the economy, potentially boosting consumer spending and supporting equities.

Our target for the S&P 500 this year remains 7200-7400.

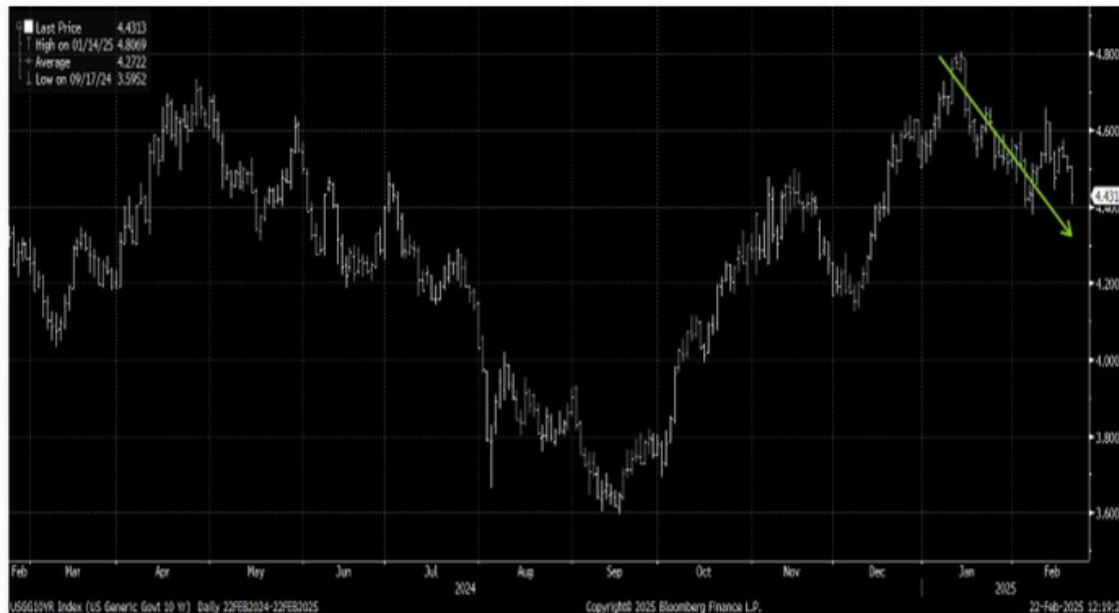
Is This The End Of The Fed's Quantitative Tightening?

Last week, we learned that at the January 29 policy meeting of the FOMC (Federal Reserve Open Market Committee), they discussed the Fed's policy of quantitative tightening (QT). The QT operation is when the Fed extracts funds from the banking system by selling Treasury notes and bonds from its balance sheet. This affects the quantity of money in the banking system and is a form of tightening monetary policy.

At its January meeting, the FOMC discussed the federal debt ceiling and the prospect of pausing or slowing QT, at least until the current debt ceiling impasse has been resolved by Congress. A QT slowdown or pause should be bullish for risk assets because it could lower interest rates and provide more money in the banking system.

Meanwhile the Treasury is currently spending from its Treasury General Account (TGA) due to the debt ceiling limit – an action that is injecting liquidity into the banking system (see our Feb. 18 Week Ahead for more info.) Taken together, the QT easing and the TGA spending should also put less pressure on interest rates and offer a further opportunity for Treasury bond yields to decline.

Our View: 10-Year Treasury Yields Have Been Falling



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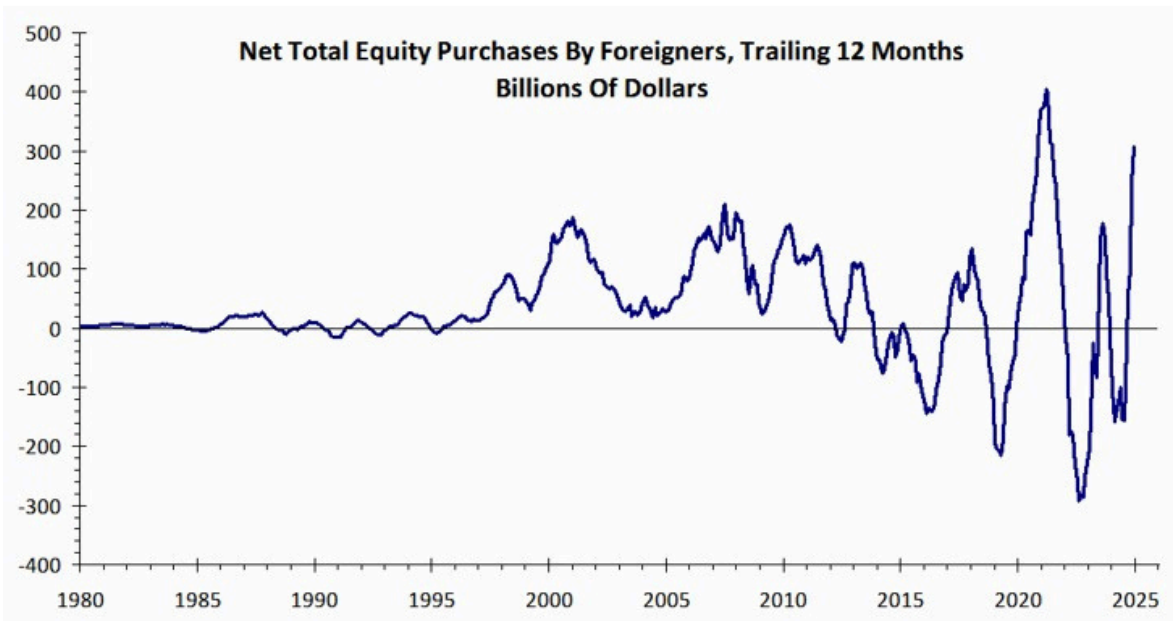
A Move Forward In Quantum Computing And Artificial Intelligence

Last week, Microsoft made a big leap in quantum computing with its new Majorana 1 chip. Unlike traditional computers, which process exact answers, quantum computers work by calculating probabilities—helping solve problems much faster. But quantum computing has some major challenges. First, it needs extremely cold temperatures, close to absolute zero (about -460°F), to function. Second, it struggles with errors, since it deals in probabilities rather than definite answers. To fix mistakes, quantum systems typically need multiple layers of corrections, which slow things down.

Microsoft’s breakthrough involves a new state of matter—a “topological phase” that allows them to detect whether there’s an odd or even number of electrons in a wire, even when there are billions of them. In simple terms, they can tell if there’s a billion electrons or a billion-and-one. Because this detection method is more accurate, it reduces the need for extra error-checking layers, making quantum computing more efficient. Microsoft claims this could shrink the timeline for quantum computing from decades to just years. *This should accelerate the development of artificial intelligence (AI).*

Microsoft’s achievement has not so far been reflected in its stock price, but it does demonstrate the continued leadership of American technology in the world. Investors poured capital into the U.S. market in the fourth quarter of 2024, helping to boost equity prices. In our view, Technology stocks retain leadership as companies compete to put AI to work, which we believe will increase productivity, increase earnings, and improve margins. We expect capital to continue to be attracted to the U.S.

Foreign Investors Poured Capital Into US Stocks In 4Q24



Source: Department of the Treasury, Sanctuary Wealth, February 20, 2025

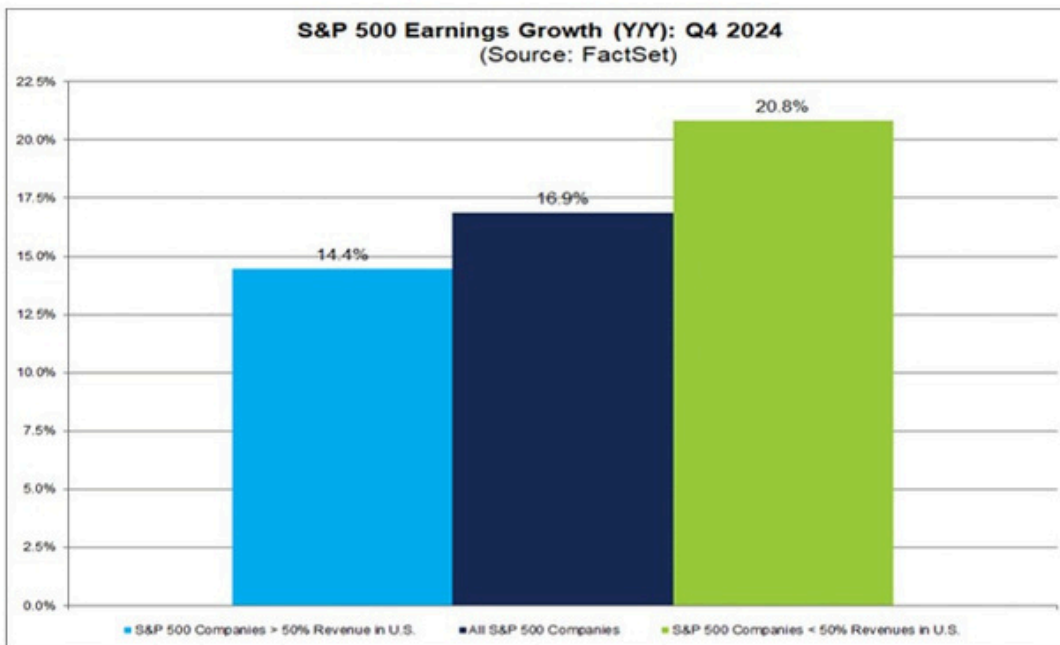
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Uncertainty Over Tariffs

President Trump continues to threaten trading partners with expansive tariffs of up to 25% for autos, semiconductors, and pharma. While we believe his Administration does intend to impose some sort of tariff schedule, we continue to see this as primarily a negotiating tactic to pry open foreign markets to American exports. That's why the emphasis is on "reciprocal tariffs" – designed to counter unfair trade practices—instead of protective tariffs aimed at shielding domestic industries, which many other countries use to support their own manufacturing and economic growth.

There's good reason for this reciprocal strategy, too: in 2024, companies in the S&P 500 that made most of their revenue outside the United States grew earnings faster than those with most of their revenue inside the U.S., according to FactSet. This is despite the U.S. dollar rising against almost every other currency in the world during last year. While there is no guarantee that this will continue throughout 2025, (FactSet reports that it is not anticipated to be repeated in the first quarter), this is likely still an additional spur to the Trump Administration to try to boost U.S. exports.

Firms With Revenue From Mostly Outside The US Had Higher Earnings Growth in 2024



Source: FactSet, January 18, 2025

S&P 500 Is Outperforming The Rest Of The World

The S&P 500 was the best performing developed market in the world last year. In fact, the U.S. had been outperforming global markets for years. But – so far this year – Europe and parts of Asia are up sharply year-to-date (see table) and beating the U.S. market. Look at the accompanying chart of the U.S. versus the MSCI World ex U.S. What you see occurring is, in our view, a “digestion” of the sharp outperformance by the S&P 500. We do believe the U.S. will resume its outperformance. Where we could be wrong is if the uptrend line of the relative chart of the S&P 500 vs. the World is broken decisively to the downside.

Select Markets Year-To-Date 2025 Returns

Hang Seng (Hong Kong)	+17.0%
OMX STKH30 (Sweden)	+14.0%
DAX (Germany)	+13.1%
Euro STOXX 50	+13.0%
S&P 500	+2.2%
Dow Industrials	+2.1%

Source: Bloomberg, February 22, 2025; Sanctuary Wealth

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S&P 500 Vs. MSCI Rest Of World Ex-U.S. – That’s A Huge Smile For The US



European Stocks Do Have A Decisive Breakout

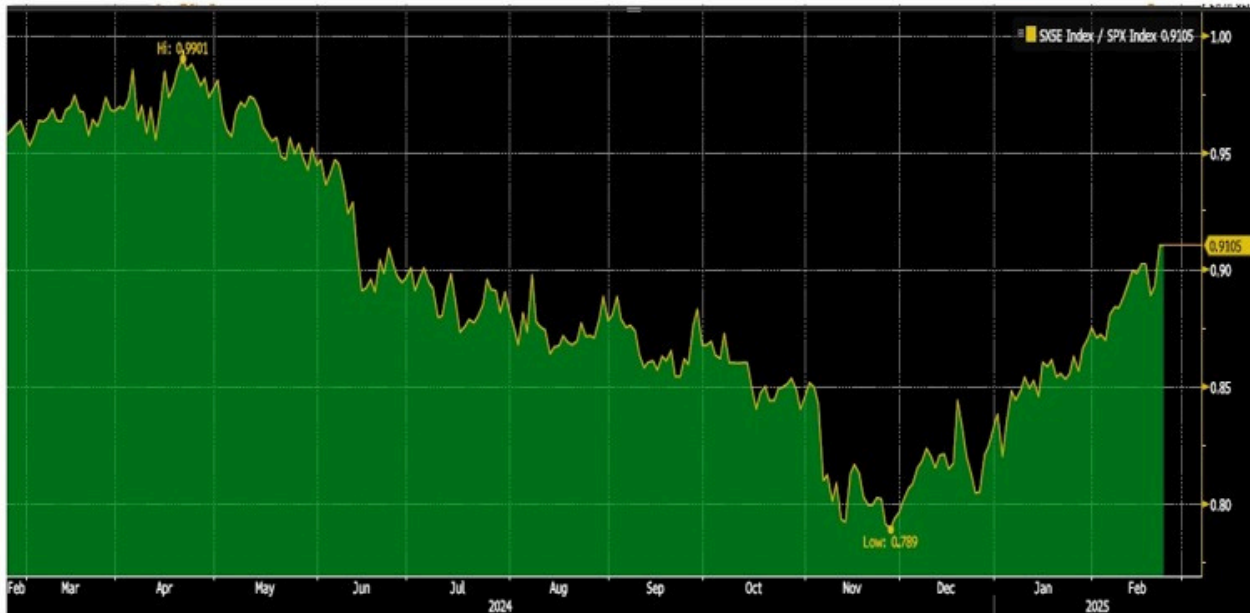
European stocks have had a significant technical breakout from a 15-year-long base. A bull trend is certainly in place. The STOXX 50 Index of leading blue-chip issues in the Eurozone has been outperforming the S&P 500 since late November 2024, but we do expect the U.S. market to catch-up – a move to be led by technology stocks.

STOXX 50 Index (Top) With Moving Average Convergence/Divergence (Bottom)



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STOXX 50 Has Been Outperforming S&P 500 Since Late November 2024



Select Energy Stocks May Perform Well

We believe the Energy sector represents Value, but we prefer Growth over Value for now. However, there are some stocks in the sector we believe could perform well. Natural gas prices are rising because of seasonally cold temperatures and the prospect of reduced regulatory restrictions. Firms involved in the export of liquid natural gas (LNG) should also perform well, in our view, as the Trump Administration has unblocked new contracts for LNG exports. Master Limited Partnerships (MLPs) are also performing well in the sector.

Natural Gas Prices Have Broken Out Of A Two-Year-Long Base

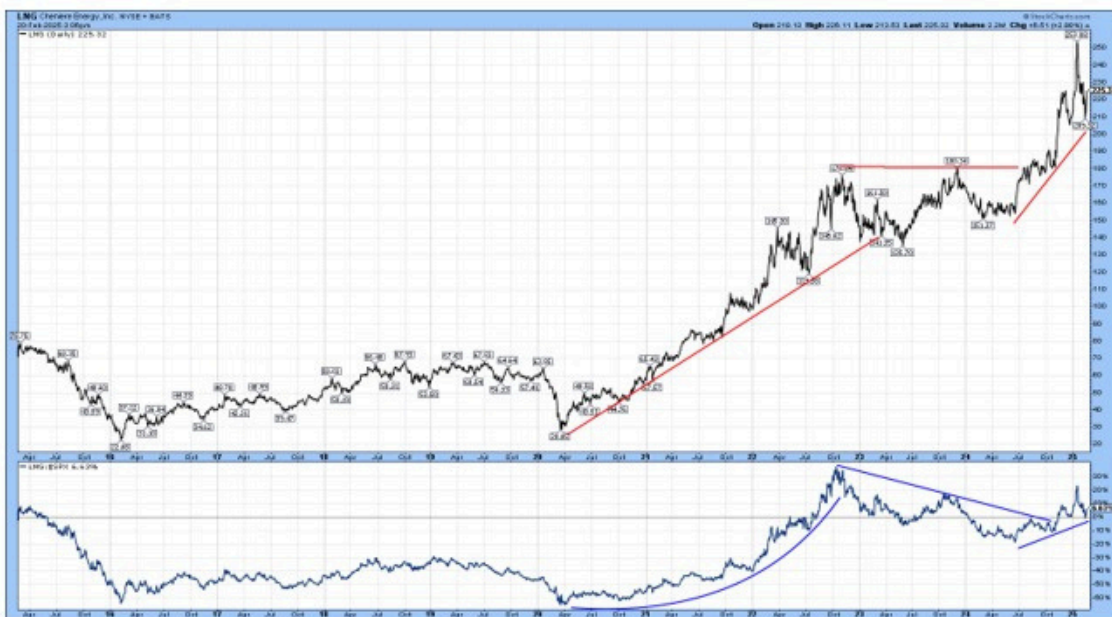
Natural Gas Price (Top) With Moving Average Convergence/Divergence (Bottom)



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Cheniere Energy (LNG) Is Involved In Liquid Natural Gas Export

Cheniere Energy (LNG) (Top) With Relative Price To S&P 500 (Bottom)



Gold Continues to Glitter

Central banks (particularly China) as well as investors worldwide are purchasing gold. Why? In addition to the seasonal demand for jewelry, gold is seen as a hedge against concerns about the U.S. deficit and the threat of tariffs. We believe modest exposure to gold can help stabilize portfolios if the Bull continues. Our target remains \$4000 on gold.

Gold (TOP) With Moving Average Convergence/Divergence (Bottom)



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Market Performance

	Last 2/21/2025	Month End 1/31/2025	Month to Date	Quarter End 12/31/2024	Quarter to Date	Year End 12/31/2024	Year to Date	Year Ago 2/22/2024	Year To Year
S&P 500	6013.13	6040.53	-0.5%	5881.63	2.2%	5881.63	2.2%	5087.03	18.2%
NASDAQ Composite	19524.01	19627.44	-0.5%	19310.79	1.1%	19310.79	1.1%	16041.62	21.7%
NASDAQ 100	526.08	522.29	0.7%	511.23	2.9%	511.23	2.9%	438.07	20.1%
Russell 2000	2195.35	2287.69	-4.0%	2230.16	-1.6%	2230.16	-1.6%	2013.84	9.0%
S&P Consumer Discretionary Sector	1768.75	1911.57	-7.5%	1831.16	-3.4%	1831.16	-3.4%	1466.32	20.6%
S&P Consumer Staples Sector	906.95	869.70	4.3%	853.65	6.2%	853.65	6.2%	790.78	14.7%
S&P Energy Sector	688.97	667.95	3.1%	654.85	5.2%	654.85	5.2%	656.15	5.0%
S&P Financial Sector	843.25	855.91	-1.5%	804.44	4.8%	804.44	4.8%	666.89	26.4%
S&P Health Care Sector	1704.69	1710.76	-0.4%	1604.75	6.2%	1604.75	6.2%	1713.18	-0.5%
S&P Industrials Sector	1139.79	1171.34	-2.7%	1115.65	2.2%	1115.65	2.2%	1011.01	12.7%
S&P Information Technology Sector	4595.73	4474.24	2.7%	4609.52	-0.3%	4609.52	-0.3%	3731.99	23.1%
S&P Materials Sector	554.23	559.03	-0.9%	529.77	4.6%	529.77	4.6%	543.52	2.0%
S&P Real Estate Sector	265.41	260.37	1.9%	255.92	3.7%	255.92	3.7%	242.71	9.4%
S&P Communications Sector	358.01	372.33	-3.8%	341.66	4.8%	341.66	4.8%	275.32	30.0%
S&P Utilities Sector	406.63	395.93	2.7%	384.95	5.6%	384.95	5.6%	311.22	30.7%
S&P 500 Total Return	13224.45	13271.38	-0.4%	12911.82	2.4%	12911.82	2.4%	11037.82	19.8%
3 month Treasury Bill Price	98.92	98.93	0.0%	98.92	0.0%	98.92	0.0%	98.65	0.3%
3 month Treasury Bill Total Return	258.56	257.93	0.2%	256.97	0.6%	256.97	0.6%	245.83	5.2%
10 Year Treasury Bond Future	109.69	108.84	0.8%	108.75	0.9%	108.75	0.9%	110.02	-0.3%
10 Year Treasury Note Total Return	298.30	295.27	1.0%	293.94	1.5%	293.94	1.5%	287.59	3.7%
iShares 20+ Year Treasury Bond ETF	89.61	87.76	2.1%	87.33	2.6%	87.33	2.6%	92.63	-3.3%
S&P Municipal Bond Total Return	280.38	279.15	0.4%	278.14	0.8%	278.14	0.8%	272.12	3.0%
iShares S&P National Municipal Bond NAV	106.79	106.63	0.2%	106.40	0.4%	106.40	0.4%	107.71	-0.8%
S&P 500 Investment Grade Corporate Bond Total Return	471.88	467.57	0.9%	465.24	1.4%	465.24	1.4%	448.12	5.3%
S&P Investment Grade Corporate Bond	91.00	90.44	0.6%	90.28	0.8%	90.28	0.8%	89.92	1.2%
S&P Investment Grade Corporate Bond Total Return	502.99	498.63	0.9%	495.89	1.4%	495.89	1.4%	475.86	5.7%
SPDR Bloomberg High Yield Bond ETF	96.63	96.76	-0.1%	95.47	1.2%	95.47	1.2%	94.65	2.1%
iShares iBoxx High Yield Corporate Bond ETF	79.65	79.72	-0.1%	78.65	1.3%	78.65	1.3%	77.30	3.0%
Gold	2936.05	2798.41	4.9%	2624.50	11.9%	2624.50	11.9%	2024.39	45.0%
Bitcoin	95325.37	102110.01	-6.6%	93714.04	1.7%	93714.04	1.7%	51650.63	84.6%

Source: Bloomberg, Sanctuary Wealth, February 21, 2025

A Packed Week With Market Moving Data On Inflation, Confidence, And Nvidia

This week, markets are ready to move on Nvidia earnings and PCE data.

Among a week of important economic data, the highlight will be Friday's personal income and spending report, featuring the Fed's preferred inflation gauge: Personal Consumption Expenditures (PCE). Investors will be watching closely for any signs of cooling or persistent inflation that could influence future interest rate decisions. On Tuesday, the Conference Board's consumer confidence index will provide insight into sentiment amid ongoing economic uncertainty. Midweek, housing data on Wednesday and Thursday will shed light on the real estate market's resilience, while regional business surveys throughout the week will offer a pulse on economic activity. Adding to the mix, nearly a dozen scheduled speeches from Fed officials could further shape expectations for monetary policy. But the real headline-grabber for the week will be Nvidia (NVDA), which will report earnings on Wednesday after the market closes. Investors will examine not only whether Nvidia beats projections for earnings, revenues, and units sold, but will also listen closely to what CEO Jensen Huang says about the company's prospects going forward. So, it's a week of many moving parts – all of which can impact both fixed income and equities markets. Look sharp!



Calendar

Mon. Earnings: Domino's Pizza, Diamondback Energy, SBA Communications*

Tue. 4:20 am Dallas Fed President Lorie Logan speaks in London
9:00 am S&P Case-Shiller home price index (20 cities)
10:00 am Consumer confidence
11:45 am Fed Vice Chair for Supervision Michael Barr speaks
1:00 pm Richmond Fed President Tom Barkin speaks
Earnings: Home Depot, Keurig Dr Pepper, Camping World, ZoomInfo

Wed. 10:00 am New home sales
12:00 pm Atlanta Fed President Raphael Bostic speaks
Earnings: Nvidia, Salesforce, Advance Auto Parts, Universal Health

Thu. 8:30 am Initial jobless claims, Durable-goods orders, GDP (second reading)
9:15 am Kansas City Fed President Jeff Schmid speaks
10:00 am Pending home sales, Federal Reserve Vice Chair for Supervision Michael Barr speaks
11:45 am Fed Governor Michelle Bowman speaks
1:15 pm Cleveland Fed President Beth Hammack speaks
3:15 pm Philadelphia Fed President Patrick Harker speaks
Earnings: Bath & Body Works, Acadia Healthcare

Fri. 8:30 am Personal income, Personal spending, Core PCE index, Advanced U.S. trade balance in goods,
Richmond Fed President Tom Barkin speaks
9:45am Chicago Business Barometer (PMI)
10:15am Chicago Fed President Austan Goolsbee speaks
Earnings: Chart Industries, ANI Pharmaceuticals

*Earnings reflect highlights
Source: CNBC, Kiplinger's, MarketWatch

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