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Sanctuary
Asset Management
Investment Outlook

Active Asset Allocation Views

Overview

We are experiencing a bear market rally and technical bounce ; its not the start of a new bull market yet. While there are near term supports, including a stronger seasonality heading into year-end, we remain cautious and feel markets will likely retest lows and eventually push down to the 3,200 level before finding a bottom. There is potential for a 1H 2023 bottom. Near term, we could push up towards the 4,150 levels. Interest rates will continue to rise putting pressure on risk assets.

Economy

The Fed raised rates for the fourth consecutive time by 75bps and are expected to raise an additional 50bps in December. December will likely depend more on data that comes in over the coming weeks. The Terminal rate target is in the 5% area, meaning the bulk of the rate hikes will be front loaded into 2022. It is highly likely in our opinion that a global slowdown and recession will occur in 2023. Data we are watching includes consumer spending as well as the Fed balance sheet, unemployment, inflation and industrial activity.

Equities

Our view is to underweight equities, and specifically to underweight growth. It's too soon for tech or semiconductors in this environment of a Hawkish Fed and strong dollar. Conversely, overweight USA vs. Rest of the World (ROW) or Emerging markets due to the strong dollar, the likelihood of continued aggressive rate hikes, and a potential global slowdown. We remain underweight risk assets and focused on quality and value at this time. We have not hit full capitulation, and while earnings have not been horrible, they have not been strong enough to justify multiple expansion. Markets are not yet cheap trading at a 18x multiple. Our view is Value over Growth, SMID over Large Caps, USA over ROW and EM. We see the long-term secular bull as still intact.

Fixed Income

Fixed income is a difficult market right now, though there are pockets of potential as rates have come up and offered an alternative to equities. The 2-year Treasury now yields 2x the S&P 500 dividend yield. Short 0–12-month Treasury bills, and short duration (3-5years) remain attractive. We feel it is too early to chase after credit or duration risk, though there will be a point in the hiking cycle when investors will want to push out in the curve. While there may be opportunities in high yield, investors need to understand credit spreads are not yet at the level of capitulation and may continue to widen as economic data deteriorates. The hiking cycle is not done yet, so investors need to be selective.

Alternatives

Our view is to Overweight alternatives, need to be selective know your time horizon and risk/return profile. Outperformance spread over public markets has increased to 7.4%, given the lagged nature of reporting in private markets, combined with modest decreases in valuation multiples. Scarcity value for high-quality assets will result in companies trading at a premium valuation. The leveraged loan market has effectively shut down, significantly impacting large cap PE. Favorable for middle/lower market PE and secondaries. Underweight growth and VC where valuations remain elevated. Great environment in Private Credit: higher yields and stronger terms. Real Estate offsets inflation, but valuations high. Managed futures tend to help with downward-trending markets. Bitcoin and Ethereum have corrected sharply and are likely to remain extremely volatile. Blockchain technology is the next generation of the internet and will likely be adopted overtime. A long-term view must be taken for cryptocurrencies, non-fungible tokens (NFTs) and the metaverse.

Asset Allocation Views

		Opportunity Set	UW	N	OW	Change	Conviction	
MAIN ASSET CLASSES		Equities	●				High	Bear market rally, equites have not bottomed yet
		Fixed Income (>1yr)		●		▲	Low	Be selective, shorter duration, higher quality
		Alternatives			●		High	Opportunities to capitalize on volatility and market shifts
		Cash			●		Moderate	Cash and cash equivalents offer yields higher than the S&P 500 yield
PREFERENCE BY ASSET CLASS	EQUITIES	U.S.			●		High	Strongest economic footing, highest quality and growth potential
		Large Cap	●				High	Valuations have not come down as much, mega tech expensive
		Small/Mid			●		High	Attractively valued, be selective in quality and company
		Growth	●				High	Too soon for growth and long duration equites in a rising rate cycle
		Value			●		High	Value and dividends may continue to outperform for the near term
		Int'l ex U.S.	●				High	UK, Europe, and Japan are risky and likely slower growth than U.S.
		Emerging Markets	●				High	Strong dollar and global slowdown are headwinds
	FIXED INCOME	Duration	●				High	3-5 year duration
		U.S. Government			●	▲	Moderate	Yields have become attractive on the short end
		Corp IG			●		Moderate	Attractive yields and decent spread over Treasuries
		Corp HY	●			▼	Moderate	Credit spreads may continue to widen and pressure the sector
		Municipals		●			Low	Becoming attractive relative, watch your credit and state exposure
		Int'l ex U.S.	●				High	Less attractive with strong US Dollar and lower credit quality
		Emerging Markets	●				High	Currency and growth concerns make this sector a bit risky
	ALTERNATIVE	Hedge Funds			●		Moderate	Managed futures
		Private Credit			●		High	Benefits from lack of bank lending
		Private Equity		●			High	Deals being pulled, Middle market positive
		Real Assets		●			Low	Prefer infrastructure over private REITs
		Crypto		●			Moderate	VC - Bitcoin, Layer 2/3, Blockchain delivered in PE funds

Sector **Views**

PREFERENCE BY EQUITY SECTOR — EQUITIES

Opportunity Set	UW	N	OW	Change	Conviction	
Communication Services	●				High	Weakening fundamentals, increasing streaming competition with regulatory risk on interactive Media. Advertising spend is falling sharply.
Consumer Discretionary	●				High	Valuations remain high with a pending recession and higher unemployment rate but this sector at high risk.
Consumer Staples		●			Moderate	Focus on Quality and Dividends. Higher rates and inflation are negatives for the sector.
Energy			●		High	Strongest earning in the S&P 500 with positive winter seasonals. Investors remain underweight the sector. Attractive and growing dividends.
Financials		●			High	Value with dividends and net interest margins should continue to grow for the banks. Risk is a recession adding to loan loss reserves.
Health Care			●		Moderate	High consumer demand and growing with the baby boomers. Still under-owned by long-only funds. Headline risk on drug pricing and regulation.
Industrials			●		High	Value sector and select industries leveraged to energy. Infrastructure beneficiary along with inflation and rates. Under-owned sector.
Information Technology	●				High	Valuations remain too high with slower growth. Higher rates and slower consumer spending to negatively impact earnings. Deglobalization and China a risk. Advertising spending is falling sharply.
Materials			●		Moderate	Leveraged to higher commodity prices and inflation. An inexpensive sector that is under-owned.
Real Estate	●				High	Rising interest rates are a big negative for the sector and it's the most expensive sector in the S&P 500. Over-owned relative to history.
Utilities		●			Moderate	High Quality sector with dividends. Demand rising with resilient fundamentals. Higher rates historically a negative due to high leverage.

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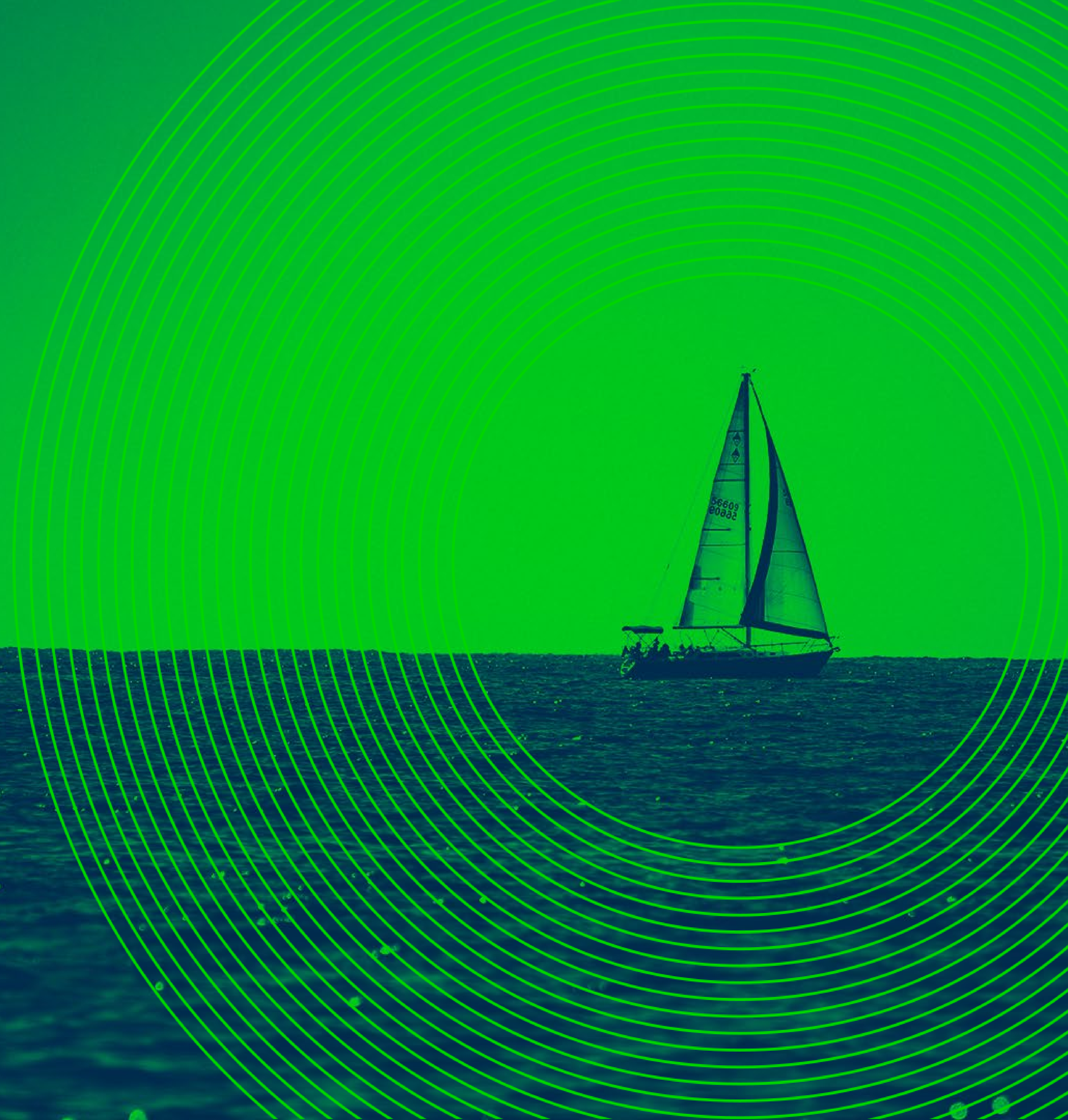


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