ALLUVIAL
PRIVATE WEALTH

A WORD FROM
JEFF KILBURG
Chief Investment Officer

SANCTUARY ASSET MANAGEMENT

CIO CORNER

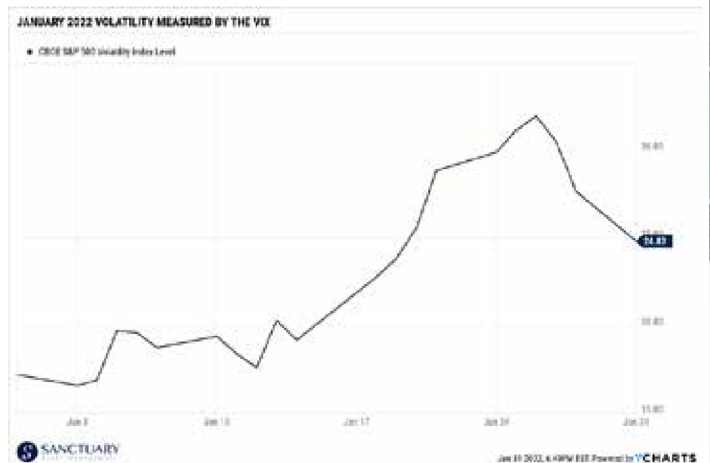
February 2022

Welcome February! With Valentine's Day right around the corner and love for the recent found market optimism as January closed on a positive note, I am optimistic for the month ahead. January ended on a high note, but the S&P 500 and the Nasdaq Composite posted their worst months since the onset of the pandemic. Volatility increased while stocks saw significant profit-taking due to fears the Federal Reserve is to step up the pace of rate hikes.

Opportunity: After an above average Santa Claus rally, my belief was that the 2022 market was always going to be a volatile tug of war between earnings and interest rates. That tug of war became a near cage match in the first month of 2022. Corporate profit growth fueled by the reopening of our U.S. economy has come up against significant headwinds in both valuations and expectations of the Fed's tighter monetary policy. I view this recent price action as a buying opportunity versus some of the naysayers who claim that this is the beginning of a larger pullback in equities. Technology companies were some of the hardest hit in January, as investors feared higher interest rates would expose their lofty valuations and raise their operating costs. After a dramatic pullback in the tech sector, investors bargain hunted some tech names that had been battered all January as tech broadly rose 7% in the month's last two trading sessions.

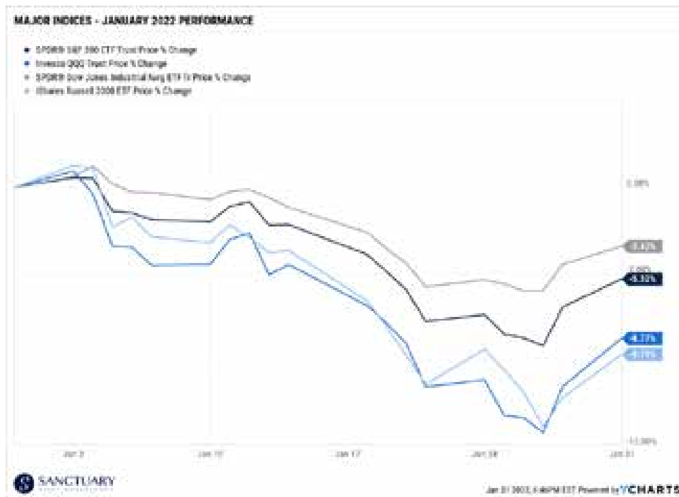
HIGHLIGHTS

- Interest rate expectations have changed, but the Fed has not made any changes to its interest rate or balance sheet policies yet.
- A March rate hike of .25 bps seems to be certain and expected by markets.
- Signs surfaced that some Federal Reserve policymakers think that markets may be getting ahead of themselves with the projected pace of rate hikes. Four officials spoke on the last day of January, each emphasizing the need for gradual tightening and the need for moves to be data dependent.
- Remain constructive on equities as growth continues to be strong.
- Forward guidance during Earnings Season will be a guiding light.



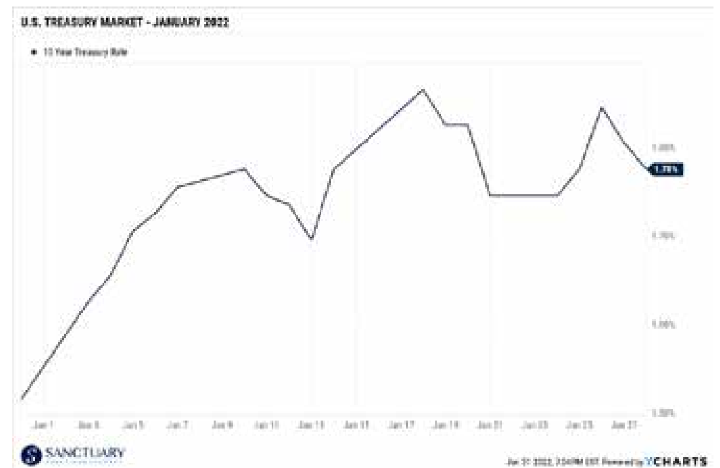
Monthly Performance: The S&P 500 closed out the month down 5.3%. That's its worst month since the 12.5% loss in March of 2020, and its biggest January decline since 2009. The Dow Jones Industrial Average dropped 3.3%, as it

benefitted from its underweighting in tech shares and saw buyers emerge, as the continued wrestling match between growth and value persists. The tech-heavy Nasdaq Composite finished strong as buyers emerged to settle the month at 14,239, but the high beta index still ended down 8.9% for January, its worst month since March 2020.



January Jitters: Wall Street's rule of thumb used to be that the month of January set the tone and sentiment for the rest of the year. By that measure, the stock market in 2022 has been stressed, unpredictable and subject to wild swings; quite like my mood when the pizza delivery person is running late. The cause of turbulence has been connected to the Federal Reserve abruptly changing their policy stance from accommodative or "dovish" to a tightening one, better known as "hawkish." This repositioning by Federal Reserve Chairman Jerome Powell is most likely due to his delayed response the surging inflation that has been gripping our economy. If you recall, he stated that growing inflation data was simply "transitory" for several quarters inside of 2021.

Bond Market: I continue to believe the path toward monetary policy normalization will be bumpy, but that it's certainly time for the Fed to have started down the path. On the last day of January, the 2-year Treasury yield rose to as high as 1.21%. The 2-year yield attempts to forecast the level of short-term interest rates for the next couple of years. When it rises, it means the bond market sees more rate increases coming from the Fed. In the wake of Fed rhetoric turning hawkish in recent weeks, the 10-year note also rose with velocity and in an unexpected manner. To start the year, the benchmark U.S. Treasury rate of the 10-yeaer note was at 1.53% and has since surged to settle at 1.78% on month's end. Last week, the Fed indicated that it will likely start raising rates in March to combat historically high inflation. That would be the central bank's first-rate hike in more than three years. Markets are now considering five rate hikes in 2022. Until the Fed dramatically changed its narrative and kick-started its very recent hawkish campaign, I envisioned only one rate hike for 2022. With the recent information, I now anticipate at least two rate hikes in 2022, but I am firmly not in the camp of four or five hikes. (My forecast of zero rate hikes in 2021 was certainly a lonely view in late 2020, yet the correct forecast...we will have to wait and see how my accuracy plays out this year.) And yes, my view on interest rate hikes drastically differs from the current Fed Fund market. My confidence is due to my belief in that the recent red-hot inflation will abate soon, making additional rate hikes unnecessary and potentially a policy misstep for the Fed. I am not quite in the camp that inflation will fall through the floor like Cathie Wood stated on our dynamic Oasis interview (click to watch) this month and the Fed will not raise rates at all in 2022, but, my view is that cooling inflationary data will allow the Fed to pause on their hawkish policy via additional rate hikes. I also believe that the Fed has the ability to use the reduction of its wildly swollen balance sheet to "synthetically" raise rates if indeed needed later in the year. This is a tool the Fed has in its toolbox and this hybrid approach to a higher interest rate regime may assist in the stock market's digestion of higher rates.



Energy Sector: WTI Crude Oil price continues to climb, up to over $88 per barrel to close the month out. U.S. energy companies are soaring in the early days of 2022, driven by a shift to so-called value stocks and assets that stand to benefit from the steepest inflation in nearly four decades. The Organization of the Petroleum Exporting Countries and its Russian-led allies, a group known as OPEC+, will meet this week. OPEC+ has so far stuck to a timetable that has seen it add 400,000 barrels a day to output in monthly increments, resisting calls by the U.S. and oil-consuming countries for larger increases.

Released February 1st, Exxon Mobil's revenue jumped more than 80% year over year during the Q4. Exxon (XOM) was up 24% through January 31. With Exxon (Essential 40 model holding) now in a stronger financial position, the company said it will begin to buy back stock during the first quarter. Buybacks may become more of a theme during Q4 earnings; this is bullish. The energy sector via Energy Select Sector SPDR® ETF (XLE) is up over 18% this year. Energy also posted the biggest gains of any S&P 500 sector last year in 2021, rising nearly 48%. As previously discussed, I believe proper sector exposure will be a source of alpha in 2022.

POSITIONING FOR FEBRUARY

As Valentine's Day is around the corner, love may indeed be in the air. The love I am talking about is in the potential bounce back in stocks as investors consider that the correction may have been contained in January. The dramatic increase in trading volume for the month coupled with the S&P 500 200-day moving average being tested, places confidence in a short-term bottom. Also favoring market bulls, the end of month drop-off in the VIX (back down to 24 to close the month) reinforces that nerves have calmed slightly. Market attention will refocus to the balance of Q4 earnings. As earnings will be forced to share the stage with the Federal Reserve, I think it will be critically important to understand forward guidance for companies. This earnings season should assist as we continue to measure the realized impact of Omicron in Q4. So far, earnings growth is coming in at 25.3% year over year (source: Refinitiv) with companies in aggregate reporting earnings 4.1% above expectations.

I will be closely monitoring the Jobs Report released this week. Job growth slowed at the end of 2021 , and January data will show if the dip continues.

Although the Fed has flashed the lights signaling that the party may be ending sometime soon, the party is not over. It is important to remember that the Fed's balance sheet cannot be unwound in one year or not even in five years for that matter. I believe in evaluating your equity exposure and considering adding alternative investment exposure as the risk-on environment will continue.

For assistance, please contact:

Office:
(740) 244-8822
107 N. Main Street, Suite 202
Marion, OH 43302
lars.olson@alluvialprivatewealth.com
www.alluvialprivatewealth.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.