The Corner

TOVA Wealth

September 2025

Rates Drop, Sectors Rotate, Momentum Carries On

Executive Summary

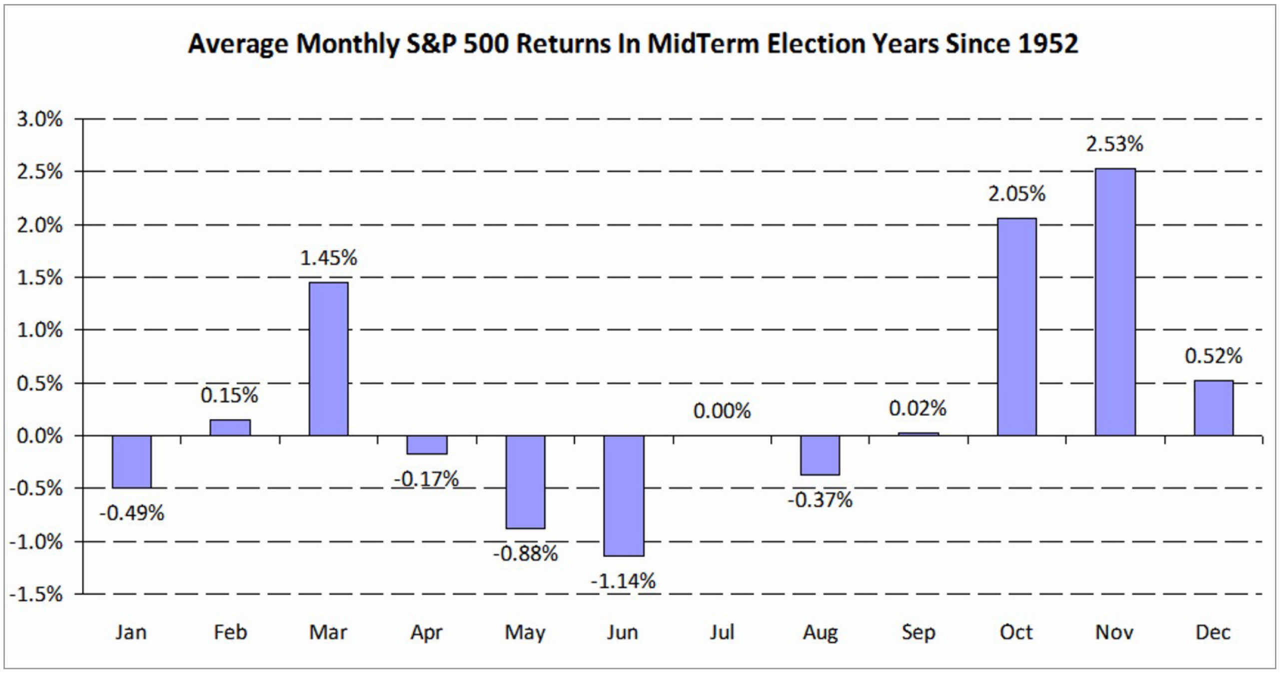
Our work continues to support a secular bull market, driven by economic growth, consumer spending, and transformative technologies. Corporate earnings continue to rise, profit margins are still expanding, and the markets anticipate that the Federal Reserve (Fed) will cut short-term interest rates 25 basis points this month, which could buoy the equity market and boost economic activity. Our year-end target for the S&P 500 is 7000, and we expect it to reach 7200 next year. Our long-term target for this secular bull market has the S&P 500 reaching 12,000–13,000 for by 2029–2030.

In this month's Corner, after a brief review of the markets, we will cover crypto-currencies: their performance and importance, a short discussion of how they work, and the legislative framework that governs them.

We Are Moving Into Fall And So Are The Markets

Next year, we will see mid-term Congressional elections. Historically, stocks have corrected from March until June with the S&P 500 having an average gain of 3.4% since the early 1950s. There were two mid-term election years of the 1950s that saw spectacular returns, 40.8% in 1954 and 32.6% in 1958, so the rule is far from hard and fast. Still, only half of the 18 mid-term election years since 1952 have seen rising markets.

Mid-Term Election Years Tend To Have A Bucking Bull



Source: Bloomberg, Standard & Poor's, Sanctuary Wealth, September 7, 2025

The Market Is Experiencing Cyclical Rotation

Growth stocks tend to outperform Value stocks when earnings are scarce. This is one of our investment themes. But the prices of Communication Services and Information Technology, where earnings growth has been strongest, have dramatically exceeded those of the broader market, while the prices of Health Care, Energy, and Consumer Staples, where earnings growth has been weak, have seriously underperformed the broader market. Markets always return to the mean, and cyclical rotations revert performances to the mean. We believe the secular bull market remains intact. Our underlying themes of new technologies driving higher earnings per share (EPS) and expanding price earnings (PE) ratios remain in place.

Employment And Inflation Figures Were Weak. This Is Positive For Asset Prices.

Weak nonfarm payrolls for August were interpreted by the markets as a positive because that gives the Fed room to lower interest rates at this month's Federal Open Market Committee (FOMC) meeting, set to conclude on September 17. The Producer Price Index (PPI) was better than expected , while the Consumer Price Index (CPI) met expectations. The data reinforced the market's view that interest rates could move lower and should give the FOMC added confidence to cut rates. The market has 100% certainty in an expected rate cut of 25 basis points for September. The market is also expecting two additional cuts this year. The FOMC will also release the dot plots, giving guidance on what each Fed member is expecting for the future direction of interest rates. If the FOMC does lower rates and has dovish comments, both stock and bond prices can rise, and we believe mortgage interest rates can decline, boosting the economy. But if the Fed strikes a more hawkish tone in its statement, speech, and dot plot projections, we could see a modest uptick in interest rates, and this could put pressure on equities.

Payroll Growth Is Weakening And Unemployment Is Gradually Rising

Unemployment remains quite low but is rising, now reaching 4.3%. The Fed has been projecting this rate to rise to near 4.5%. Currently the Fed describes the labor market as "balanced." But the labor market is slowing, and the market is expecting the Fed to lower rates to support this weakening in the labor market.

Banks & Asset Managers May Benefit From Deregulation & Crypto Market Partnerships

The Fed and the Trump Administration have undertaken steps to relieve some of the regulatory burden on banks. The Fed has announced that it will implement new individual capital requirements for large banks effective October 1. There are also proposals to review and potentially reduce the supplementary leverage ratio (SLR) for large banks. Additionally, the Fed, Federal Deposit Insurance Corporation (FDIC), and Office of the Comptroller of the Currency (OCC) have all clarified that banks are allowed to engage in crypto-related activities under normal supervisory processes, signaling a more permissive stance than in the past.

We expect this implementation to build out over time, but we are already seeing some partnerships taking shape. Last week, Binance announced a partnership with Franklin Templeton to develop digital asset products. The collaboration aims to combine tokenization expertise and global trading infrastructure, creating innovative, compliant solutions for investors while bridging traditional finance and crypto markets. We expect to see more collaborative partnerships between traditional finance and the decentralized crypto market.

Banks are nearing all-time highs with relative strength stable to improving.

SPDR S&P Bank ETF (KBE) (Top) With Relative Price To S&P 500 (Bottom)

Source: StockCharts.com, Annotations by Sanctuary Wealth

Small Cap Stocks Rallying But Not Showing Leadership

The equity market is broadening out with small capitalization (cap) stocks having a strong rally. The expected lower interest rates are helping this rally. But on a relative basis, we expect small cap stocks to continue to underperform larger cap stocks. One of the reasons for this underperformance is at least one-third of the companies do not have any earnings. The earnings growth remains in the mega-cap Technology and Communication Services sectors.

S&P 600 Small Cap Index (Top) With Relative Price To S&P 500 (Bottom)

Source: StockCharts.com, Annotations by Sanctuary Wealth

Gold Continues To Advance

Gold is the best-performing asset this year. Strong central bank purchases, along with purchases by individuals and investors buying for defensive positions in their portfolios, have driven the metal to new all-time highs. We believe prices will continue to push higher toward our target of $4000 per troy ounce.

Gold Has Broken Out Of A 13-Year Base. Our Target Is $4000

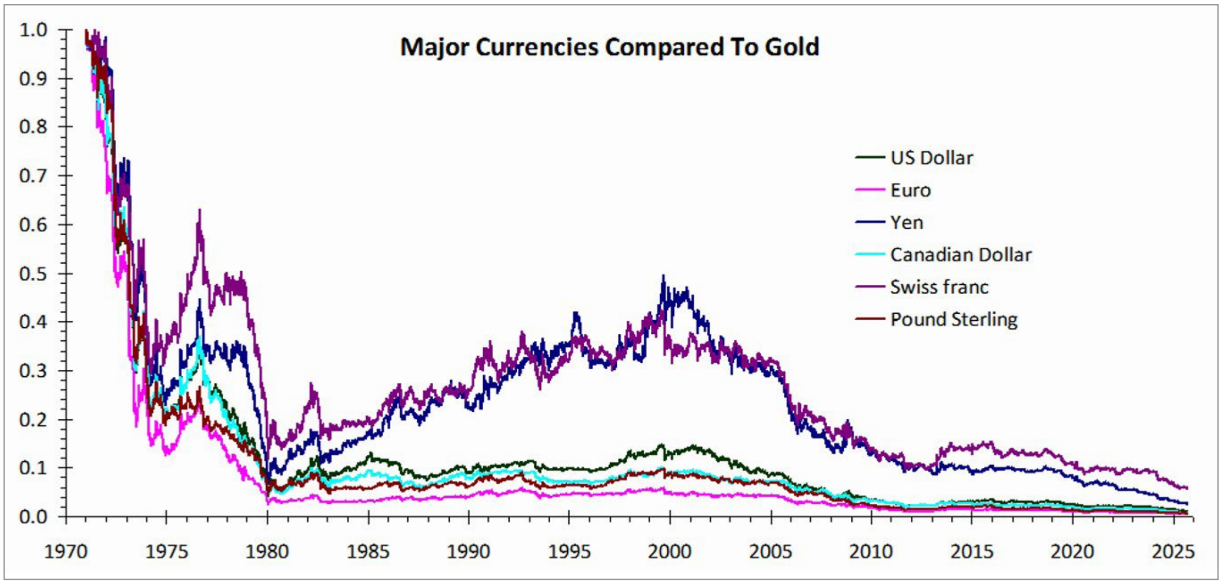
Gold Hits Record High With Stochastic Overbought But Still Positive

Source: Bloomberg, Annotations by Sanctuary Wealth

What Is Driving Central Bank Purchases

Central banks may be the most important purchasers of gold. Gold is the traditional bank reserve and a natural currency. Since 1971, every major currency has declined in value relative to gold, even as countries sought greater shares of global trade. This has impacted central bank reserves, prompting many to turn to gold as a way to bolster their holdings.

Fiat Currencies Have Fallen In Terms Of Gold In A Race To The Bottom



Source: Standard & Poor's, Bloomberg, Sanctuary Wealth, September 6, 2025

Gold Mining Stocks Benefit From Rising Gold Prices

Gold mining stocks naturally benefit from a rising gold price, as it directly boosts their profitability. We prefer the smaller stocks, the "juniors," because they are more sensitive to increases in gold prices. The VanEck Junior Gold Miners ETF (GDXJ) broke out from a 13-year trading range and projected in time to test the 140 level technically.

Gold Miners Have Broken Out From A 13 Year Base

VanEck Junior Gold Miners ETF (GDXJ) With Stochastics (Middle) And MACD (Bottom)

Source: Bloomberg, Annotations by Sanctuary Wealth

Silver Has Also Begun To Rally From A Long Base

Silver is rallying from a 12-year long base. While not as widely recognized as a global currency like gold, silver is still a traditional monetary metal, and it also plays a key role in industrial applications. It is often referred to as "poor man's gold."

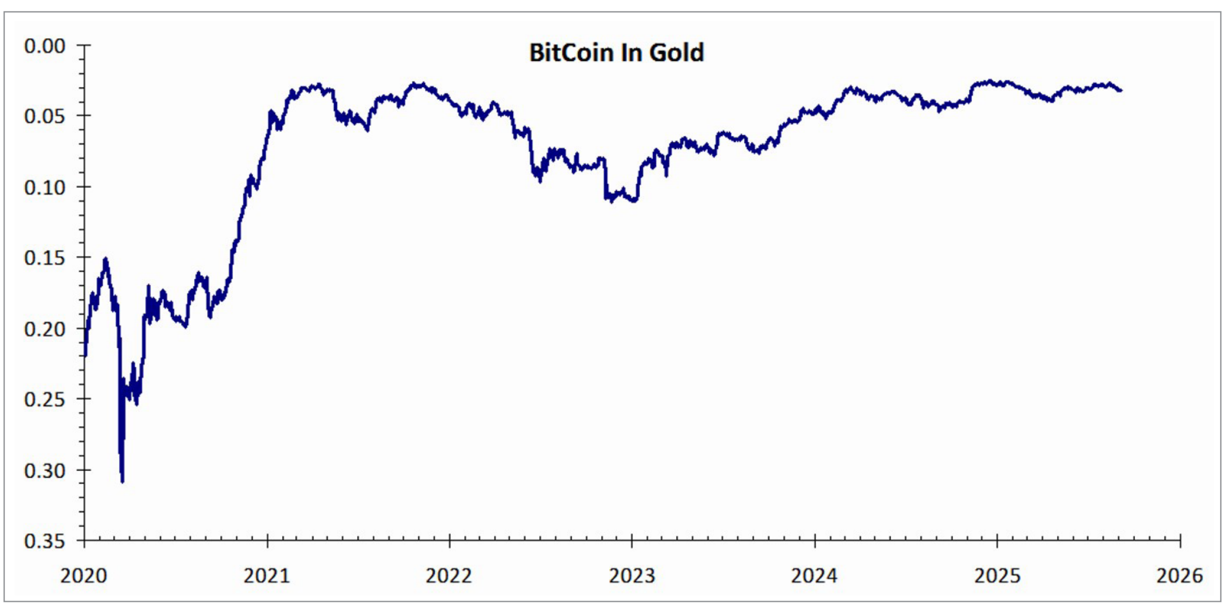
iShares Silver Trust With Stochastics: Our Target Is $45 Per Ounce

Source: Bloomberg, Annotations by Sanctuary Wealth

Bitcoin Is Lagging Gold

Unlike the major fiat currencies, Bitcoin rallied against gold over the past 10 years. However, it has yet to surpass the high it reached against gold last November. Nevertheless, Bitcoin remains the second-best asset year to date in our universe. Our technical target is $150,000.

Bitcoin Has Not Broken Its 2024 High Relative to Gold



Source: Bloomberg, Sanctuary Wealth, September 8, 2025

Bitcoin Remains In a Strong Uptrend

Bitcoin With Moving Average Convergence Divergence

Source: Bloomberg, September 10, 2025

DISCLAIMER

Comments regarding Cryptocurrencies or Cryptocurrency-based securities are for informational purposes only. No part of this communication should be construed as investment advice and is not to be considered a solicitation with respect to the purchase or sale of any Cryptocurrency-related product.

Ethereum Is The Preferred Base For Stablecoins

Stablecoins, digital currencies pegged 1:1 to fiat currencies like the U.S. dollar, are rapidly transforming the global payment landscape by leveraging blockchain technology for fast, secure, and low-cost transactions. Unlike volatile cryptocurrencies, stablecoins such as Tether's USDT and Circle's USDC maintain stable value through backing by assets such as U.S. Treasury bills, cash, and other investments, while enabling near-instantaneous trade settlements at a fraction of the cost of traditional settlement systems.

U.S. dollar stablecoins established under the GENIUS Act (Guiding and Establishing National Innovation for U.S. Stablecoins Act) are mostly built on the Ethereum blockchain. The value of these stablecoins is growing rapidly. Visa's Onchain Analytics Dashboard for July 31, 2025, reported an adjusted stablecoin transaction volume of $817.5 billion for a 30-day period through March 2025, after filtering out inorganic activity such as bot-driven transactions and high-frequency trading. At this pace, stablecoin transactions would be close to $10 trillion per year, on the order of Visa's $13.1 trillion in transactions in 2024. Most of this is transacted on the Ethereum blockchain, which has rallied the token near its all-time high of 4955.

Ethereum Is Trying To Break Out To New Highs

Source: Bloomberg

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What's The Difference Between Bitcoin And Ethereum?

There are several differences between Bitcoin and Ethereum.

Supply

- There is a limited number of Bitcoin by design. There can only be 21 million Bitcoin, and recently there were about 19.6 million Bitcoin in existence. The entire Bitcoin network runs the same software, independently verifies all transactions, and blocks the creation of more than 21 million Bitcoin.
- Ethereum's supply is not capped.

How Transactions Are Verified

- Bitcoin transactions are verified by Proof of Work (PoW). Miners, the people who verify transactions, compete to solve a complex mathematics using brute-force computer power. This uses specialized hardware and a lot of electricity.
- Ethereum transactions are verified by Proof of Stake (PoS). PoW is a consensus mechanism used by blockchains to verify transactions and add new blocks to the network in a decentralized way. Validators are chosen to create the next block based on the amount of cryptocurrency they are willing to "stake" as collateral. If a validator acts maliciously, their staked cryptocurrency can be lost. PoW uses regular computer hardware and much less electricity.

Purpose And Use

- Bitcoin is a store of value for transactions.
- Ethereum is a technology that stores not only value, but more importantly, can also store computer programs called "smart contracts," which are sets of rules coded into the blockchain that cannot be changed once deployed. This code governs the terms of an agreement and automatically executes the agreed-upon actions, such as transferring funds or a digital asset, without the need for an intermediary.

New Federal Laws Establish Stablecoins In The U.S.

Two new laws were passed in July 2025 to establish a legal and regulatory basis for stablecoins in the U.S. The first is the GENIUS Act, to create a comprehensive regulatory framework for stablecoins. Next, the Anti-CBDC Surveillance State Act bars the Fed from launching a central bank digital currency (CDBC).

A third law, the CLARITY Act, which has been passed by the House but is being renegotiated in Senate, is expected to establish, if passed, which agencies will oversee and regulate cryptocurrencies in the United States.

The GENIUS Act

The GENIUS Act creates a comprehensive regulatory framework for stablecoins. Its main elements are:

- **Strict Reserve Requirements.** All stablecoin issuers must maintain reserves on a 1:1 basis with the value of outstanding stablecoins. These reserves must be held in low-risk, highly liquid assets like U.S. currency or Treasury bills.
- **Public Transparency and Audits.** Issuers must publish monthly public disclosures of their reserves. Larger issuers are subject to regular, independent audits to verify their reserves and financial health.
- **Regulatory Oversight.** Issuers can be a subsidiary of a regulated bank or a federally or state-qualified nonbank entity. Larger issuers are subject to federal oversight, while smaller ones can opt for state-level regulation.
- **Consumer Protection.** The GENIUS Act sets clear redemption policies and a provision that prioritizes stablecoin holders over other creditors in the event of an issuer's bankruptcy.
- **Compliance and Technical Capabilities.** The law requires stablecoin issuers to comply with existing anti-money laundering (AML) and sanctions laws. It also mandates that issuers have the technical ability to freeze or seize stablecoins when required by a lawful order.

The Anti-CBDC Act

The CBDC Anti-Surveillance State Act bans the Fed from issuing a Central Bank Digital Currency (CBDC) without congressional approval. Here are the other key elements of the act:

- **Prohibition on Indirect Issuance.** The act not only bans the Fed from issuing a CBDC itself but also prohibits it from doing so indirectly through intermediaries like commercial banks.
- **No Use in Monetary Policy.** The bill explicitly prohibits the Fed and the FOMC from using a CBDC for monetary policy purposes.
- **Requirement for Congressional Authorization.** Any future development of a U.S. CBDC requires explicit authorization from Congress so that the executive branch cannot establish a digital dollar without Congressional approval.
- **Codification of Executive Policy.** This codifies previous executive orders that prohibit federal agencies from pursuing or promoting CBDC development.

The CLARITY Act

The House of Representatives has passed the CLARITY Act, but not the Senate. The CLARITY Act would assign the Commodity Futures Trading Commission (CFTC) exclusive jurisdiction over "digital commodities," leaving the Securities and Exchange Commission (SEC) with authority over digital assets already classified as securities.

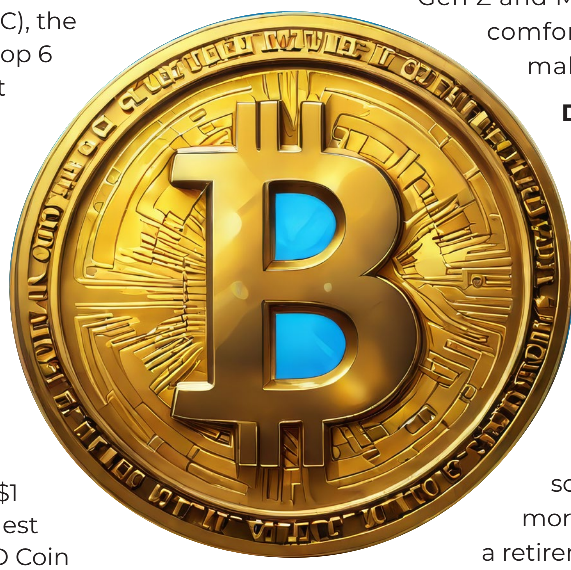
The Senate is working on a counterproposal called the Responsible Financial Innovation Act (RFIA). RFIA would give the SEC a much larger role. The SEC is a more stringent regulator than the CFTC, especially for retail-facing securities.

The two versions of the bill must be reconciled before legislation can be sent to the President and signed into law.

How Much Cryptocurrency Is There?

Current data indicates that there is about $2.26 trillion in Bitcoin, about $529 billion in Ethereum, about $169 billion in Tether (USDT), the largest stablecoin, and about $72 billion in USD Coin (USDC), the next-largest stablecoin. The other top 6 cryptocurrencies account for about $526 billion. By comparison, all the gold ever mined is estimated to be around 209 thousand metric tons, worth nearly $25 trillion, while M2, the broadest measure of U.S. money supply reported by the Fed, is about $22 trillion.

Transactions in Bitcoin are estimated to have been about $10 trillion over the past year, while transactions in Ethereum are estimated to have been about $1 trillion. Transactions in the two largest stablecoins, Tether (USDT) and USD Coin (USDC), are estimated to be comparable to Visa's $13.1 trillion in settlement transactions in 2024.



Crypto Market Has A Generational Bias And Usage

Older investors – primarily Baby Boomers, who control the majority of wealth – have adopted crypto at much lower rates than younger generations, though recent data shows growing interest. Gen Z and Millennials are far more engaged with digital assets, driven by greater tech comfort, access to online financial information, and peer communities. In contrast, Baby Boomers remain skeptical, citing concerns about trust, security, and hacking.

Reasons Why Gen Z and Millennials Invest In The Crypto Market

Digital native comfort: Having grown up with technology, Gen Z and Millennials are naturally more comfortable with digital tools and fintech, making crypto accessible and intuitive.

Disrupting tradition: Studies show younger investors believe it's difficult to achieve high returns with only traditional assets like stocks and bonds. This has pushed them |toward alternatives like crypto.

High-risk tolerance: Younger investors are more willing to invest a higher percentage of their portfolios in high-risk, high-reward assets. In the U.S., some have been found to be four times more likely to own crypto than a retirement account.

Desire for quick profit: Younger men often report that a primary motivation for using crypto is that it's a "fast way to make money."

Community and social influence: Many younger investors enter the crypto space through mobile apps and online communities like Reddit and Discord, which foster a sense of community and can influence investment choices.

Economic factors: Facing significant economic challenges like student loan debt and high housing costs, younger generations may view crypto as an alternative path to building wealth.

Last Words

The S&P 500 remains in a secular bull market powered by strong economic growth, consumer resilience, and transformative technologies such as AI, Blockchain, Web 3.0, Virtual Reality and Robotics. Corporate earnings are rising, profit margins are strong, and returns on equity support valuations. Plus, there is $7.3 trillion in money market funds on the sidelines. We believe that the S&P 500 can reach 7000 by year-end and 12,000–13,000 by the end of the decade. We favor Growth over Value stocks, with Information Technology and Communication Services in the lead.

Treasury yields are likely to decline, with 10-year Treasuries breaking support levels at 4.0% and possibly falling to 3.7%-3.6% in time. Yields on the 2-year Treasuries are approaching 3.4%. A break below this level could see rates trending toward 3.0%. Near-term, we can have volatility in interest rates, but the trend is clearly downward. This should be stimulative for the economy and support the job market, which in turn is expected to be bullish for stocks into year-end.

We believe any backup in equities is a seasonal, short-run event that will not derail the secular bull market.

Risks To Our Outlook

- Sustained inflationary pressures that lift 10-year Treasury yields above 5.0%.
- Destabilization in international trade from unexpected tariff escalation that interrupts market momentum.
- A significant rise in unemployment.
- An unexpected slowdown in consumer spending or corporate earnings.

Corrections are opportunities, not reversals. Patient investors could find values in this dynamic bull market.