April 3rd, 2023

VERED WEALTH MANAGEMENT (CANADA) COMPANY LIMITED

Weekly Market Guide

The S&P 500 has done well to recover from banking sector concerns over the past few weeks. However, the rally has been a bit more uneven beneath the surface, reflecting the confusion inherent within the current backdrop.

Technology and the semiconductors (often a good market barometer given its widespread economic applications) are leading in the rally, but participation has been top-heavy. For example, despite Technology moving to year-to-date highs, the percentage of stocks above their 50-day moving average has contracted. This is a negative divergence indicating weaker breadth in the advance. Additionally, the small caps and transports (areas with outsized leverage to the economy) have lagged. On the positive side, credit spreads remain contained- supporting the recent market upside.

These conflicting internal signals make sense, considering cross-currents within the macro in terms of inflation, economic growth, and potential Fed policy. The underlying tone is another factor supporting our suggestion to not plunge in with idle cash, preferring to rather accumulate exposure in the weak periods. Range-bound trading (potentially ~3500-4100 S&P 500) remains our bias for short-term trends.

There are plenty of economic data points coming up that will influence the data-dependent Fed and equity markets. February Core PCE (the Fed's favored measure of inflation) is reported tomorrow; followed next week by March ISM surveys, February JOLTS Job Openings, and March jobs report; and then March CPI, PPI, retail sales, and industrial production the week after.

Additionally with tomorrow being the last day of Q1, earnings season will begin in two weeks with the banks. Their updates will be of particular focus given recent volatility in that area. The bank decline has left many at oversold levels, but the group has been unable to bounce much from those conditions- provides further caution in the short-term. For the S&P 500 overall, we believe that forward earnings estimates will continue to get revised lower as results come out, given our expectations of a mild recession later this year. However, similar to the past three quarters, interest rate movements (and economic updates) may be a bigger influence on how the S&P 500 trades during earnings season.

In sum: Bank contagion fears have subsided in recent weeks, allowing for the S&P 500 to recover back to prior levels. But the rally has been uneven with mixed signals beneath the surface- reflective of confusion on the economic backdrop. We remain comfortable with our view of range-bound trading for now (potentially ~3500-4100 S&P 500). It will be difficult for equities to move sustainably higher without inflation lower, but the Fed is also at the stage where it will support economic damage as needed.

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	-1.3%	-7.3%
S&P 500	4.9%	-13.0%
S&P 500 (Equal-Weight)	0.5%	-11.8%
NASDAQ Composite	13.9%	-18.4%
Russell 2000	0.6%	-16.9%
MSCI All-Cap World	4.9%	-12.1%
MSCI Developed Markets	6.1%	-6.4%
MSCI Emerging Markets	2.5%	-13.8%
NYSE Alerian MLP	1.1%	4.5%
MSCI U.S. REIT	-1.6%	-26.7%

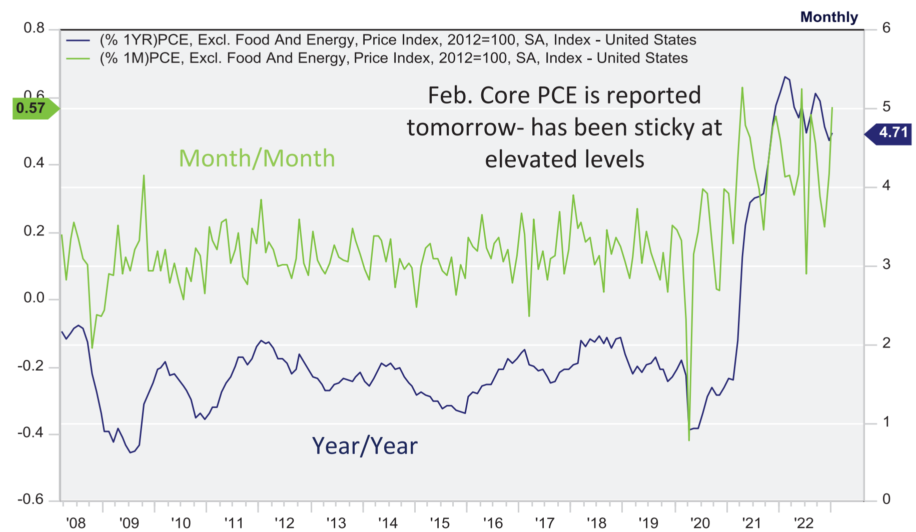
S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Information Technology	18.4%	25.9%
Communication Svcs.	17.4%	8.1%
Consumer Discretionary	11.8%	10.0%
S&P 500	***4.9%***	-
Materials	1.5%	2.6%
Industrials	1.5%	8.7%
Consumer Staples	-1.0%	7.3%
Real Estate	-2.1%	2.5%
Utilities	-5.1%	2.9%
Health Care	-6.3%	14.2%
Energy	-6.5%	4.7%
Financials	-6.8%	13.1%

Source: FactSet

MACRO: US

As banking fears have subsided recently, the S&P 500 has been able to recover. 2-year Treasury yields are still well off prior levels, but have bounced over the past week. The 2yr yield remains a good gauge of Fed expectations, and may become a headwind for equities in the event it continues to climb. There are plenty of economic data points coming up that will influence the Fed and markets, beginning with February Core PCE (the Fed's favored inflation measure) reported tomorrow morning. As you can see in the chart below, core PCE has been sticky at high levels due to still elevated month/month readings. We need to see the monthly reading get back to its normal range of 0-0.3% m/m in order to ease Fed pressures. Other items coming up on the economic calendar: 4/3 ISM Manufacturing, 4/4 JOLTS Job Openings, 4/5 ISM Services, 4/7 Jobs Report, 4/11 NFIB Small Business Index, 4/12 CPI, 4/13 PPI, 4/14 Retail Sales and Industrial Production.

Event	Period	Actual	Consensus	Prior
Durable Orders ex-Transportation SA M/M (Preliminary)	FEB	0.0%	0.30%	0.40%
Durable Orders SA M/M (Preliminary)	FEB	-1.0%	0.55%	-5.0%
PMI Composite SA (Preliminary)	MAR	53.3	49.4	50.1
Markit PMI Manufacturing SA (Preliminary)	MAR	49.3	47.3	47.3
Markit PMI Services SA (Preliminary)	MAR	53.8	50.3	50.6
Dallas Fed Index	MAR	-15.7	-11.0	-13.5
Wholesale Inventories SA M/M (Preliminary)	FEB	0.20%	-0.20%	-0.50%
S&P/Case-Shiller comp.20 HPI M/M	JAN	-0.40%	-0.50%	-0.53%
S&P/Case-Shiller comp.20 HPI Y/Y	JAN	2.5%	2.4%	4.6%
Consumer Confidence	MAR	104.2	100.9	103.4
Richmond Fed Index	MAR	-5.0	-8.0	-16.0
Pending Home Sales Index SAAR	FEB	83.2	80.0	82.5
Pending Home Sales M/M	FEB	0.80%	-3.0%	8.1%
Continuing Jobless Claims SA	03/18	1,689K	1,694K	1,685K
GDP Chain Price SAAR Q/Q (Final)	Q4	3.9%	3.5%	3.9%
GDP Chain Price SA Y/Y (Final)	Q4	6.4%	6.4%	6.4%
GDP SAAR Q/Q (Final)	Q4	2.6%	2.7%	2.7%
GDP SA Y/Y (Final)	Q4	0.90%	0.90%	0.90%
Initial Claims SA	03/25	198.0K	196.0K	191.0K

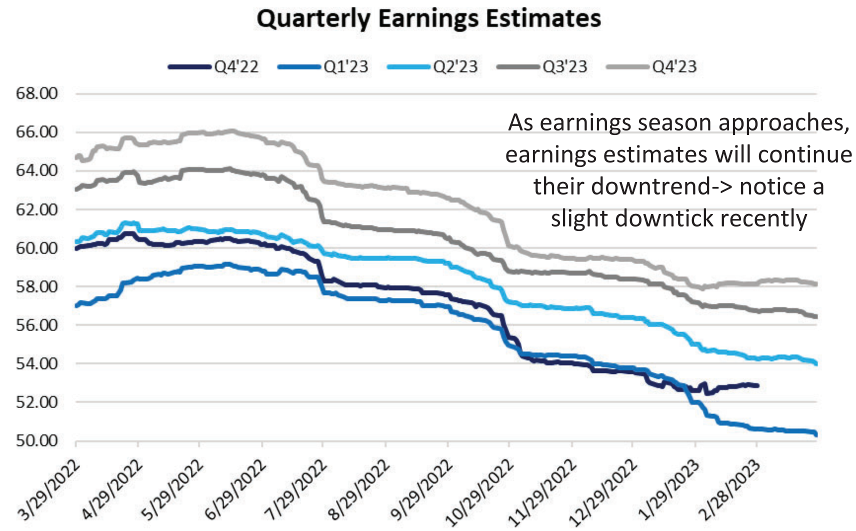


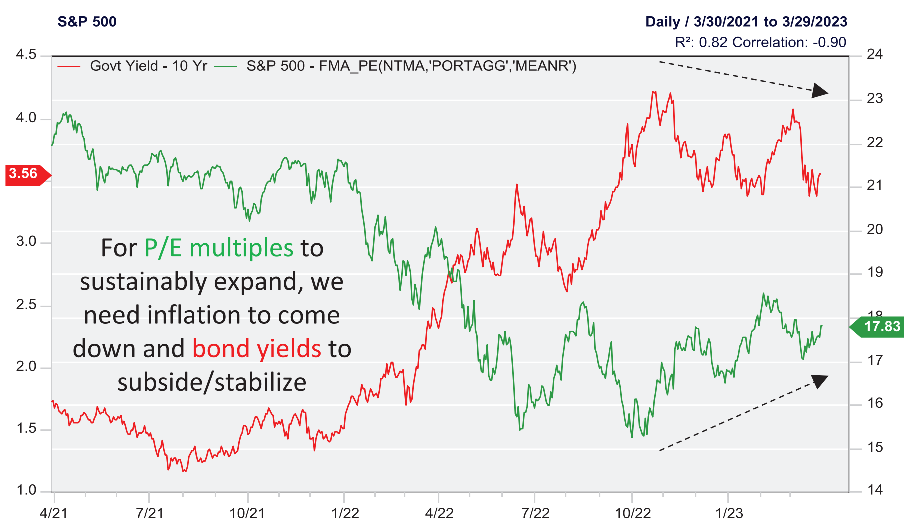
Source: FactSet

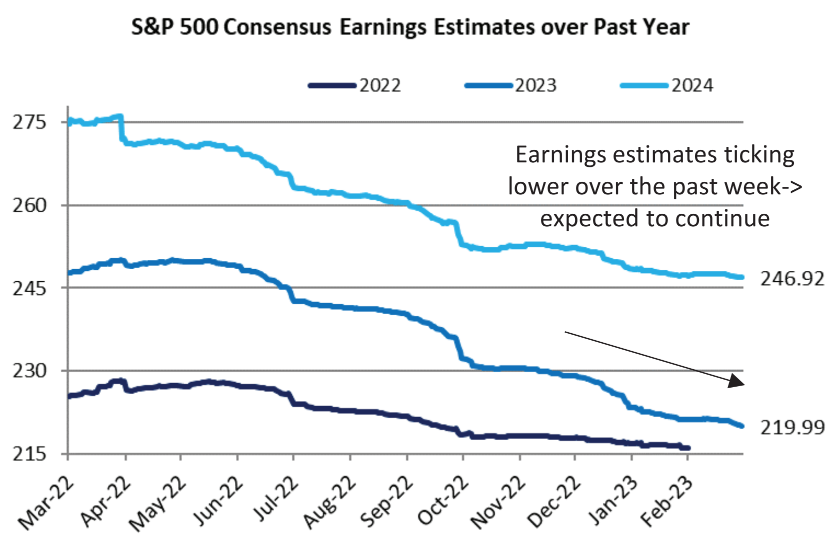
FUNDAMENTALS

With tomorrow being the last day of Q1, earnings season will begin in two weeks with the banks. Their updates will be of particular focus given recent volatility in that area. The bank decline has left many at oversold levels, but the group has been unable to bounce much from those conditions- provides further caution in the short-term.

For the S&P 500 overall, we believe that forward earnings estimates will continue to get revised lower as results come out, given our expectations of a mild recession later this year. The recent tick down in forward estimates (as earnings season approaches) supports this view. However, similar to the past three quarters, interest rate movements (and economic updates) may be a bigger influence on how the S&P 500 trades during earnings season. Valuations will have to be the driver of positive returns in a weakening earnings environment; and in order to see valuations sustainably expand, we need inflation to come down and bond yields subside/stabilize.







Source: FactSet

TECHNICAL: S&P 500

Source: FactSet

As bank selloff fears recede, the market has shown good action in recent days, closing above the 4000 level for the first time since early March. Prices also closed above the 50DMA and the short-term downtrend line.

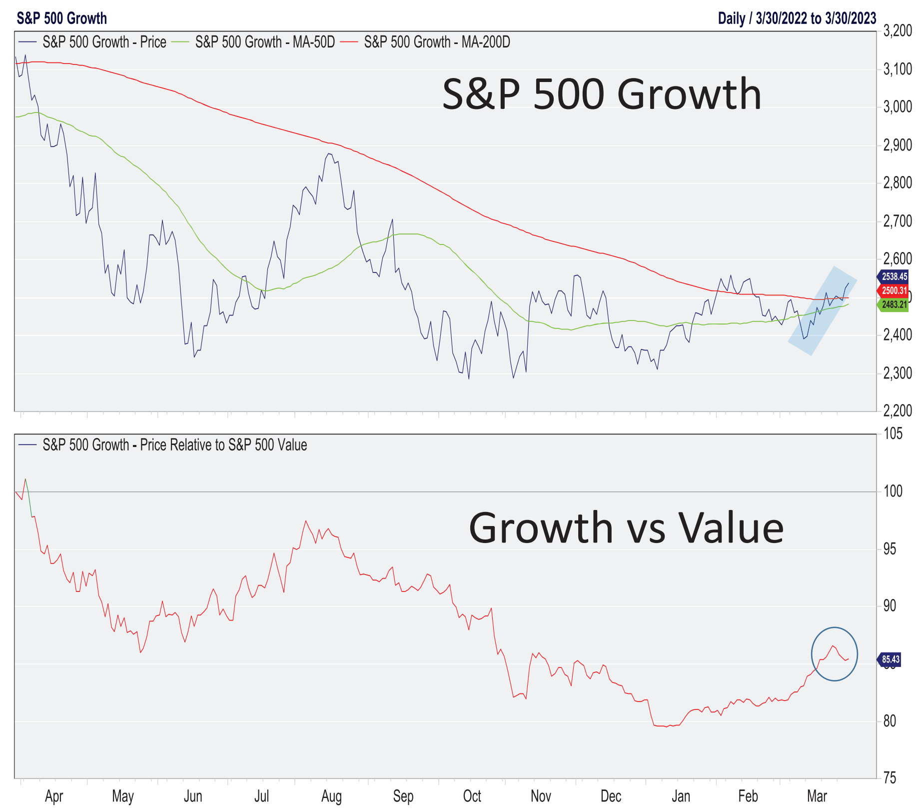
We still need to see improvement in the overall breadth picture, but recent developments are encouraging and could trigger additional gains in the short-term.

The next catalysts to define the degree of upside and downside within our expected 3500-4100 range will come from PCE on Friday, Jobs Report on Good Friday, and then earnings season (kicking off 4/14 with the banks reporting).

Watch 4083 for initial resistance, followed by the high from February at 4195. We would like to see price remain above 3875 on any pullbacks. Additional support could be found at 3853 and 3800.

MARKET ROTATION

The drop in bond yields on economic concerns and lower Fed expectations has spurred rotation into Technology and Growth, though participation has been top-heavy (as previously noted). High-quality Tech (i.e. strong balance sheets and cash flow generation) may perform better in a weakening economic backdrop, due to secular growth trends. However, interest rates will remain a key influence on relative performance in our view. Bond yields have bounced from support this week; and if this continues, there is likely to be some consolidation in Growth's advance with rotation back to Value. Additionally, in a broader sense, this rotation is being primarily driven by expectations of Fed policy and leads us to believe that the market has not fully priced in economic contraction ahead.



Source: FactSet (M23-161575)

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