April 24th, 2023

VERED WEALTH MANAGEMENT (CANADA) COMPANY LIMITED

Weekly Market Guide

The S&P 500 has been resilient, hanging in there at the upper end of its recent range (~4200). Investor optimism surrounding an end to the Fed's rate hike cycle has supported the recent strength, but we are not convinced that a steady climb higher is in the cards yet.

The delayed effects of rapid Fed tightening should bring economic growth and inflation down in the months ahead. In fact, the Fed's own forecast is for a recession to begin later this year and inflation to reach 2% by year-end 2024. It thus makes sense for the rate hike cycle to either be at or near an end (as the market expects)- and Fed pauses have historically been a boost to equities. However, the Fed will also be reluctant to cut rates with inflation still high, unless economic damage intensifies and employment deteriorates. The Committee wants to avoid easing too early with a potential "stop and go" policy like that which plagued economic conditions in the 1970s- preferring instead a "hike and hold" strategy this time.

If economic conditions hold up, the Fed may be emboldened to tighten policy more than current market expectations- a headwind to equities in our view. For example, Fed speakers have talked tougher recently with banking concerns subsiding and equities climbing. If economic conditions deteriorate, we do believe the Fed will ease monetary policy- but economic volatility is also likely to correspond with market volatility. This results in our rangebound view on equities for now, and narrow participation beneath the surface supports this stance.

Q1 Earnings Season: The majority of companies have beaten estimates so far by an aggregate 6.9%. It is still early in earnings season, but market reactions have generally been counter to recent trading. For example, Communication Services (outperformed into earnings) have seen a -5.3% price reaction on average, while the Industrials (underperformed into earnings) have seen a +2.9% price reaction on average. For the S&P 500 as a whole, next 12 month earnings estimates have ticked up since earnings season began, but we are not sure this will hold up throughout Q1 earnings season. While we remain below-consensus on earnings estimates, we do believe that a lot of negative news is already priced in to this bear market.

In sum: Pay attention to earnings season in the context of a market that is probably at the top of what we think is a trading range. For investors with marginal cash, we would be reluctant to spend it all at current levels. Long term investors- evidence is building (especially in a mild recession) that we have seen the lows and are in the late stages of this bear market.

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	2.3%	-2.9%
S&P 500	8.2%	-6.9%
S&P 500 (Equal-Weight)	3.1%	-7.7%
NASDAQ Composite	16.2%	-10.7%
Russell 2000	2.2%	-11.4%
MSCI All-Cap World	8.3%	-5.6%
MSCI Developed Markets	10.3%	2.4%
MSCI Emerging Markets	3.6%	-9.6%
NYSE Alerian MLP	3.2%	1.7%
MSCI U.S. REIT	1.3%	-24.1%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Communication Svcs.	20.5%	8.0%
Information Technology	20.5%	25.6%
Consumer Discretionary	14.8%	9.9%
S&P 500	***8.2%***	-
Materials	4.8%	2.6%
Industrials	2.8%	8.6%
Consumer Staples	1.7%	7.3%
Real Estate	1.6%	2.5%
Energy	-1.4%	4.8%
Health Care	-1.6%	14.5%
Utilities	-1.6%	2.9%
Financials	-2.4%	13.3%

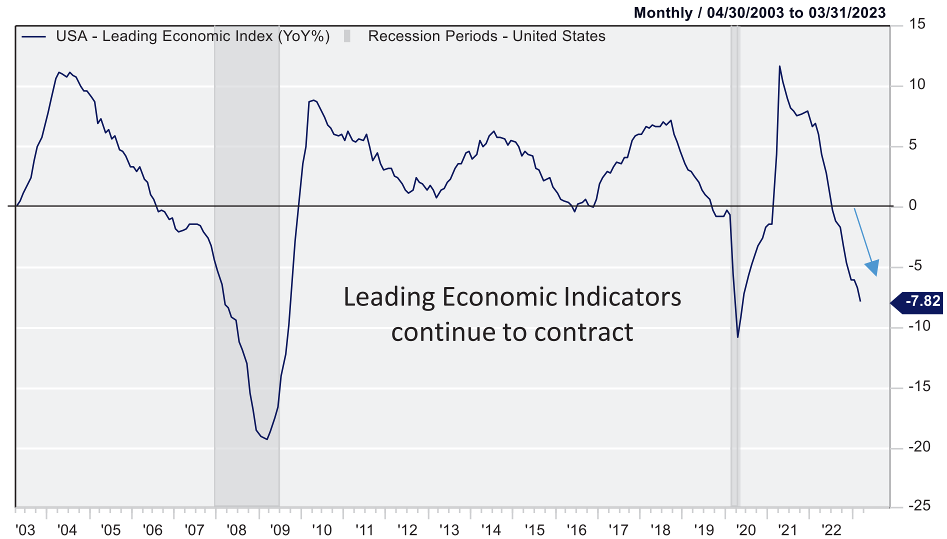
Source: FactSet

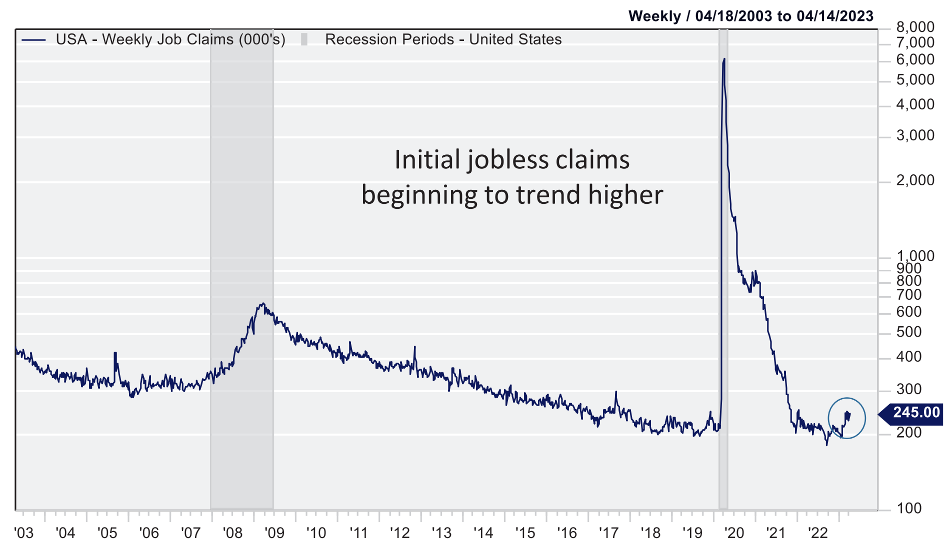
MACRO: US

The economy continues to lose momentum in our view, as evidenced by manufacturing production contracting -0.5% m/m and retail sales contracting -1.0% m/m in March. On a year-over-year basis, industrial production is now up 0.5% y/y and retail sales up 1.5% y/y. With inflation still high, real economic activity is clearly slowing.

Additionally, we believe the economy will continue to weaken ahead, as the lagged effects of Fed tightening and higher interest rates hit demand. Leading economic indicators (-1.2% m/m in March) support this view, as the index reached levels often consistent with recessions historically. Moreover, employment deteriorates in recessions. Companies are announcing layoffs and hiring freezes more broadly, as initial jobless claims begin to increase.

Event	Period	Actual	Consensus	Surprise	Prior
Export Price Index NSA M/M	MAR	-0.30%	-0.40%	0.10%	0.40%
Import Price Index NSA M/M	MAR	-0.60%	-0.15%	-0.45%	-0.20%
Retail Sales ex-Auto SA M/M	MAR	-0.80%	-0.30%	-0.50%	0.0%
Retail Sales SA M/M	MAR	-1.0%	-0.40%	-0.60%	-0.20%
Capacity Utilization NSA	MAR	79.8%	79.0%	0.80%	79.6%
Industrial Production SA M/M	MAR	0.40%	0.20%	0.20%	0.20%
Manufacturing Production M/M	MAR	-0.53%	0.10%	-0.63%	0.66%
Business Inventories SA M/M	FEB	0.20%	0.30%	-0.10%	-0.20%
Michigan Sentiment NSA (Preliminary)	APR	63.5	63.1	0.40	62.0
Empire State Index SA	APR	10.8	-18.0	28.8	-24.6
NAHB Housing Market Index SA	APR	45.0	44.0	1.0	44.0
Building Permits SAAR (Preliminary)	MAR	1,413K	1,450K	-37.0K	1,550K
Housing Starts M/M	MAR	-0.84%	-2.1%	1.3%	7.3%
Housing Starts SAAR	MAR	1,420K	1,400K	20.0K	1,432K
Continuing Jobless Claims SA	04/08	1,865K	1,850K	15.0K	1,804K
Initial Claims SA	04/15	245.0K	247.5K	-2.5K	240.0K
Philadelphia Fed Index SA	APR	-31.3	-20.0	-11.3	-23.2
Existing Home Sales SAAR	MAR	4,440K	4,500K	-60.0K	4,550K
Leading Indicators SA M/M	MAR	-1.2%	-0.60%	-0.60%	-0.50%



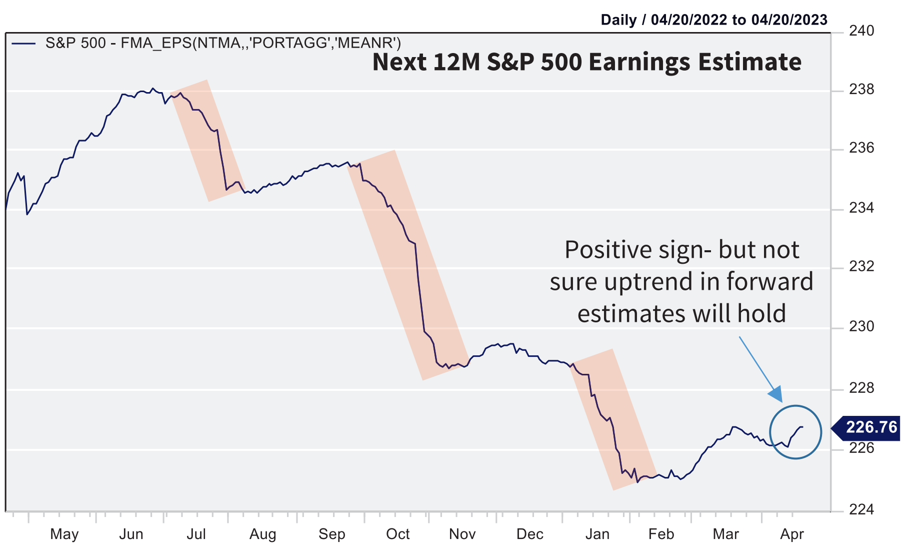


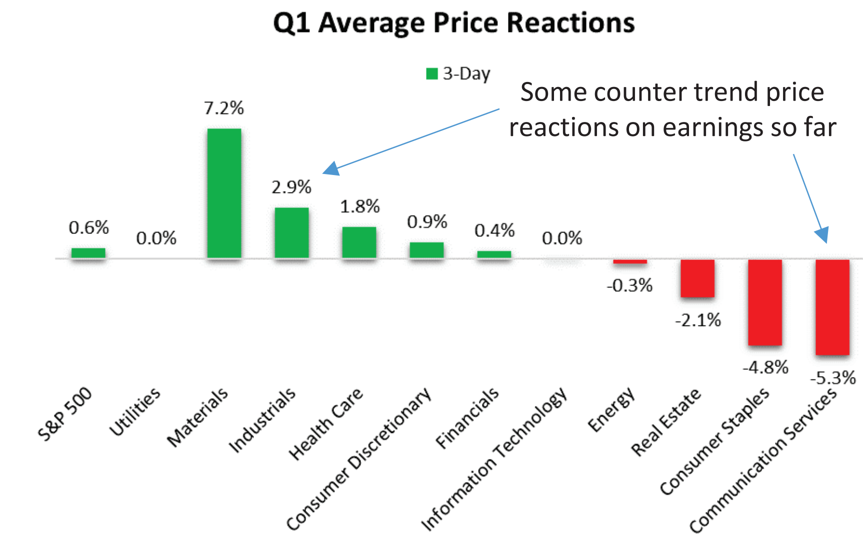
Source: FactSet

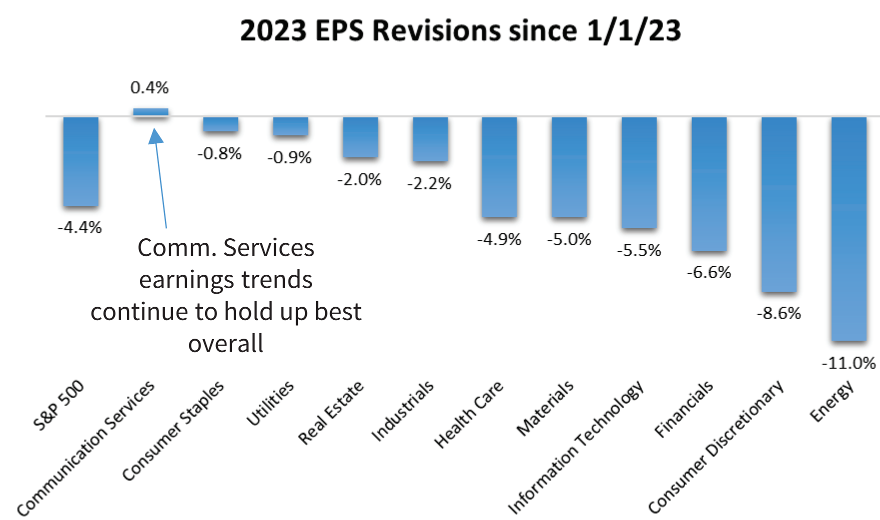
Q1 EARNINGS SEASON

We are now one week into earnings season, and results overall have been fairly good. Though estimates were revised significantly lower in the lead up, 78% of companies have beaten on earnings by an aggregate 6.9%. Market reactions have generally been counter to recent trading. For example, Communication Services (outperformed into earnings) have seen a -5.3% price reaction on average, while the Industrials (underperformed into earnings) have seen a +2.9% price reaction on average.

For the S&P 500 as a whole, next 12 month earnings estimates have ticked up since earnings season began (dissimilar from recent quarters). This is a positive sign, but we will need to monitor throughout Q1 earnings season. With the bulk of earnings season still ahead of us, we are not sure forward estimates will hold up as well given the growing likelihood of economic contraction ahead. *Continued on next page*





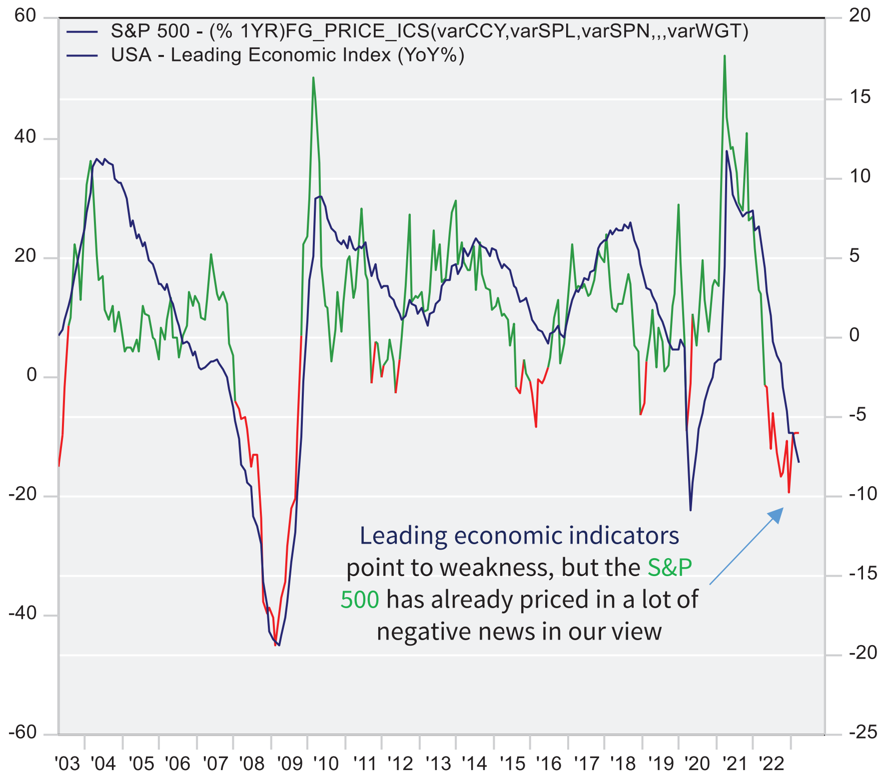


Source: FactSet

VALUATION

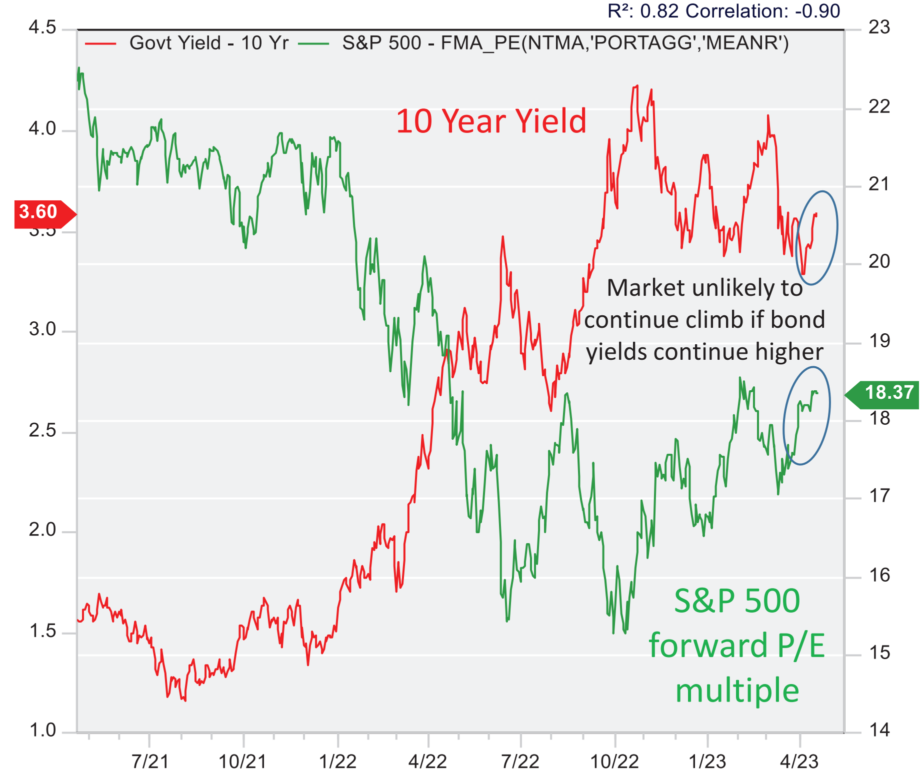
While we remain below-consensus on earnings estimates, we do believe that a lot of negative news is already priced in. This view is supported by the degree of S&P 500 price decline experienced already (-27% at October lows) in relation to leading economic indicators. This market has been early to price in weakness relative to history, we believe due to Fed policy being so telegraphed this cycle. That said, we do not believe that equities are ready for a sustainable climb higher yet- resulting in rangebound trading. An indicator we are watching for clues on P/E multiples is the 10-year yield. They have moved at a 90% inverse correlation over the past two years; but in the past two weeks, bond yields have ticked higher <u>with</u> P/E multiples. We do not believe that trend will continue for long- and if bond yields continue to drift higher, we expect markets to pull back some in the short-term.

S&P 500 (SP50-USA) : 03/31/2003 to 03/31/2023 (Monthly)



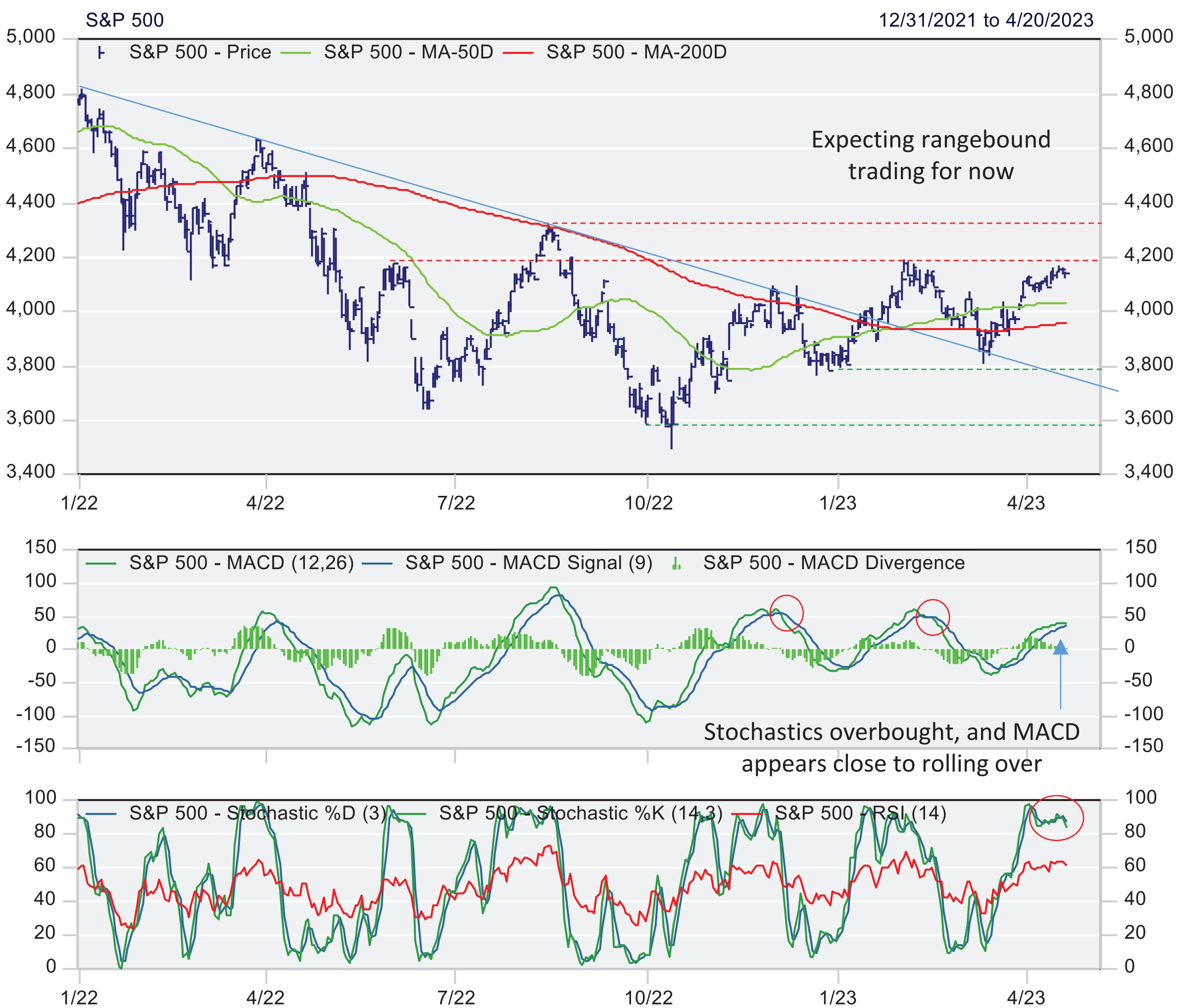
S&P 500 **Daily / 4/20/2021 to 4/19/2023**

R^2: 0.82 Correlation: -0.90



Source: FactSet

TECHNICAL: S&P 500



Source: FactSet

The market has been resilient, hanging in there at the upper end of what we believe is a trading range.

The overall market trend since the October lows has been constructive. After breaking above the prevailing downtrend in January, the retest and bounce since then are positive technical developments. The S&P 500 is now virtually at the midpoint of its bear market decline (14% from the highs and lows).

While we believe that this bear market is likely in its later stages, we do not believe that equities are ready for a sustainable climb higher quite yet. As economic concerns intensify, market volatility is likely to continue ahead. Overall, we expect rangebound trading for now.

Stochastics are overbought and MACD appears close to rolling over. This, along with the index at resistance and narrow participation beneath the surface, give us a bias to downside in the short-term.

For investors with marginal cash, we would be reluctant to spend it all at current levels. Long term investors, evidence is building (especially in a mild recession) that we have seen the lows and are in the late stages of this bear market.

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