May 15th, 2023

VERED WEALTH MANAGEMENT (CANADA) COMPANY LIMITED

Weekly Market Guide

Market resiliency, albeit on weak participation, remains the theme with recent performance still dominated by mega-cap Technology-oriented and defensive areas. While narrow leadership is not an ideal backdrop for short-term trends, rotation is more positive than broad-based weakness. Fed actions are likely playing into the mixed market signals, as the Committee both tightens (rate hikes) and loosens (supports bank liquidity issues) at the same time. On the one hand, we do not believe that equities are ready for a sustainable climb higher yet. But on the other hand, we believe a mild recession was likely priced in at the October lows. **In our opinion, choppiness is the highest probability for short-term trends and we have a range-bound bias for the S&P 500 (potentially between ~3600-4200).**

Technically, the S&P 500 is still hung in the same range, as investors wait on inflation, the economy (what sort of damage will be done), and whether there is another shoe to drop. The market grind requires patience for investors, as we may be stuck in this range for a while. Nonetheless, there are plenty of things to do for the active investor. The overall playbook remains to not chase the rallies and buy the pullbacks- and they are out there at the individual stock level. Headwinds leave equities not ready to get back to highs soon- have to let time pass and the data to get out there. In the meantime, we expect back-and-forth economic data, sentiment, and markets. We see this as the process of a market in a waiting game to learn more about the issues at hand, which include:

- Inflation- leading indicators point to inflation coming down, but we need to see it do so.
- Economy- the lag effect of higher interest rates puts high odds on weakness ahead.
- Fed policy- bond market indicating that Fed hikes are done, and the Fed should be lowering rates late this year or early next year as a recession takes place and inflation recedes.
- Debt ceiling- headline volatility can impact markets, but both sides know something has to get done. Our base case is a deal or extension after plenty of political posturing.

We believe the market has likely priced in a mild recession. If more severe, equities will probably move to the October lows (or worse) but it may not do too much damage to long-term investor portfolios. We can make the case for limited losses by the time earnings hit lows, which will be a precursor before the market eventually prints a new high. It is important to keep this bear market in perspective- it is already 16 months long and -27% at the lows (vs. recessionary bear markets -33% over 13 months historically). **The bottom line is investors need to exercise patience a bit longer, deal with back-and-forth motion that probably occurs for a while, and pick opportunities to accumulate favored stocks along the way.**

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	1.3%	4.1%
S&P 500	7.3%	3.2%
S&P 500 (Equal-Weight)	0.6%	-0.4%
NASDAQ Composite	16.4%	4.8%
Russell 2000	-0.7%	-0.7%
MSCI All-Cap World	7.6%	4.4%
MSCI Developed Markets	10.3%	11.9%
MSCI Emerging Markets	2.7%	-3.2%
NYSE Alerian MLP	-0.5%	6.6%
MSCI U.S. REIT	1.8%	-10.9%

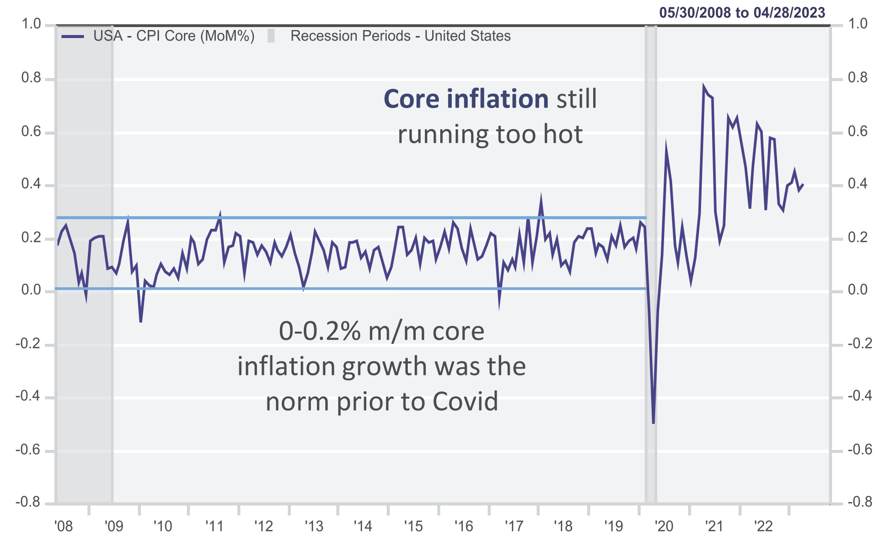
S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Communication Svcs.	22.5%	8.2%
Information Technology	21.7%	26.0%
Consumer Discretionary	14.6%	10.0%
S&P 500	***7.3%***	-
Consumer Staples	2.6%	7.4%
Materials	1.2%	2.6%
Industrials	1.1%	8.6%
Real Estate	0.0%	2.5%
Health Care	-2.7%	14.5%
Utilities	-2.8%	2.9%
Financials	-5.9%	12.9%
Energy	-8.1%	4.5%

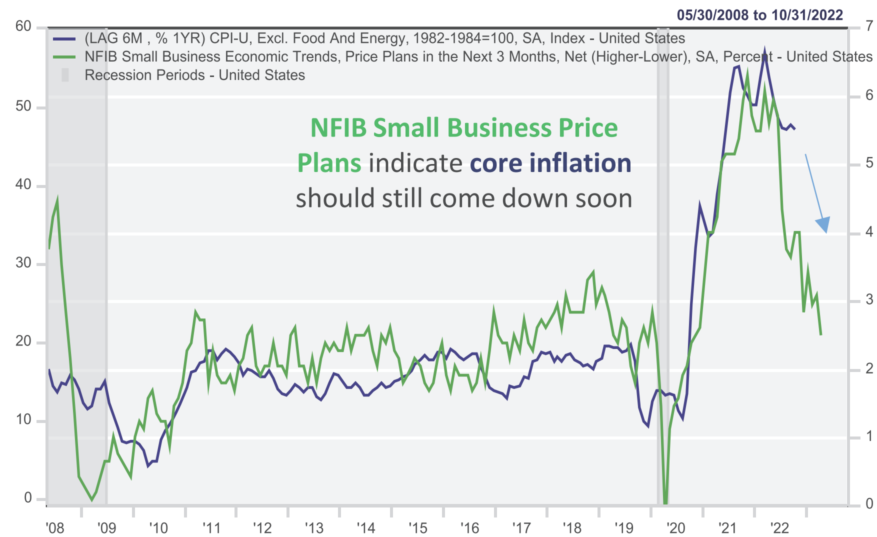
Source: FactSet

INFLATION

April CPI reflected still sticky inflation, as headline and core CPI both rose 0.4% m/m. This leaves core CPI at a high 5.5% y/y and, combined with Friday's elevated April hourly earnings of 0.5% m/m (4.4% y/y), should provide some pause for the Fed. The readings are probably not enough to alter the outlook for a June rate hike (bond market indicates hikes are over), but they should delay expectations for eventual rate cuts. Leading indicators still point toward inflation moving lower as the year progresses, and this week's Senior Loan Officer Survey reflected further tightening of bank lending standards. Economic concerns are resulting in less risk tolerance, which should tighten liquidity throughout the economy and put a damper on inflation in the months ahead. To a degree, this is what the Fed has intended- to hit economic demand (through higher rates) in order to bring down inflation. The question is how much economic damage there will be in order to do so- our expectation is for a mild recession.

Event	Period	Actual	Consensus	Surprise	Prior
Continuing Jobless Claims SA	04/22	1,805K	1,877K	-71.5K	1,843K
Initial Claims SA	04/29	242.0K	240.0K	2.0K	229.0K
Unit Labor Costs SAAR Q/Q (Preliminary)	Q1	6.3%	4.8%	1.5%	3.3%
Productivity SAAR Q/Q (Preliminary)	Q1	-2.7%	-1.0%	-1.7%	1.6%
Trade Balance SA	MAR	-$64.2B	-$63.5B	-$0.73B	-$70.6B
Hourly Earnings SA M/M (Preliminary)	APR	0.50%	0.30%	0.20%	0.27%
Hourly Earnings Y/Y (Preliminary)	APR	4.4%	4.2%	0.20%	4.3%
Manufacturing Payrolls SA	APR	11.0K	0.0K	11.0K	-8.0K
Nonfarm Payrolls SA	APR	253.0K	178.0K	75.0K	165.0K
Private Nonfarm Payrolls	APR	230.0K	157.0K	73.0K	123.0K
Unemployment Rate	APR	3.4%	3.6%	-0.20%	3.5%
Consumer Credit SA	MAR	$26.5B	$16.4B	$10.1B	$15.0B
Wholesale Inventories SA M/M (Final)	MAR	0.0%	0.10%	-0.10%	0.10%
NFIB Small Business Index	APR	89.0	-	-	90.1
CPI ex-Food & Energy SA M/M	APR	0.40%	0.30%	0.10%	0.40%
CPI ex-Food & Energy NSA Y/Y	APR	5.5%	5.4%	0.05%	5.6%
CPI SA M/M	APR	0.40%	0.40%	-0.0%	0.10%
CPI NSA Y/Y	APR	4.9%	5.0%	-0.10%	5.0%
Treasury Budget NSA	APR	-	$327.7B	-	-$378.1B



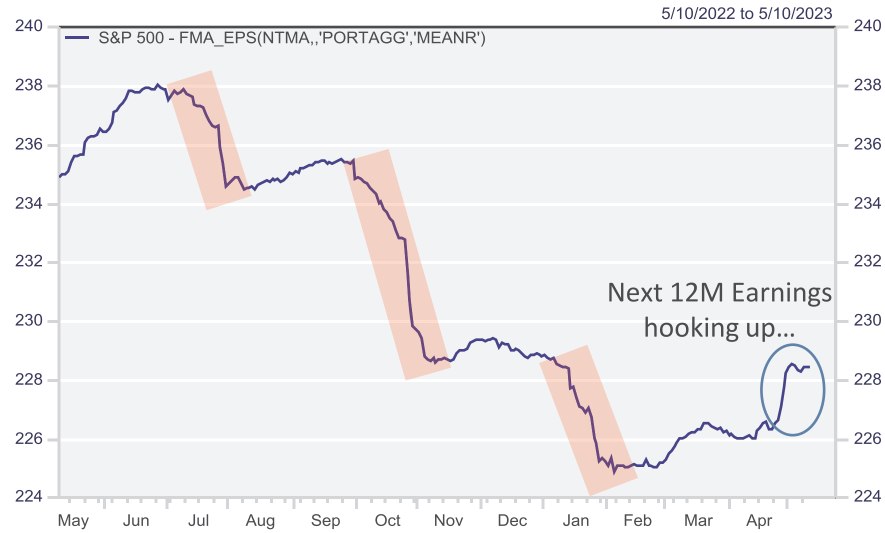


Source: FactSet

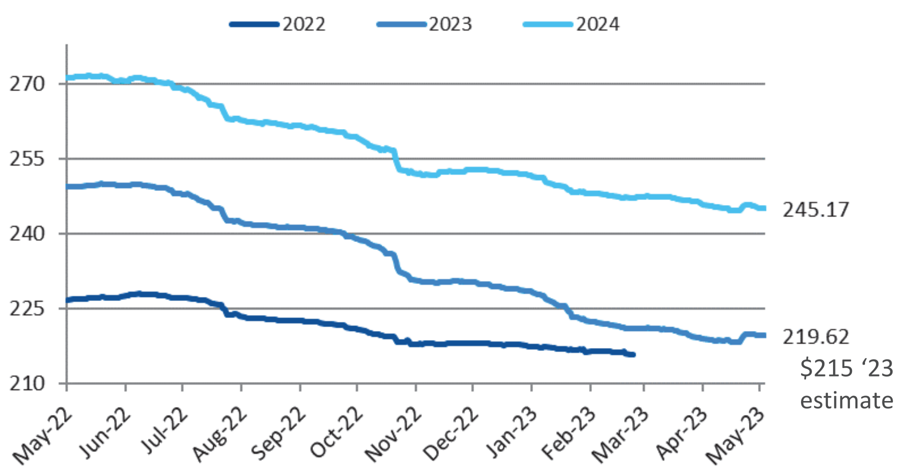
FUNDAMENTALS

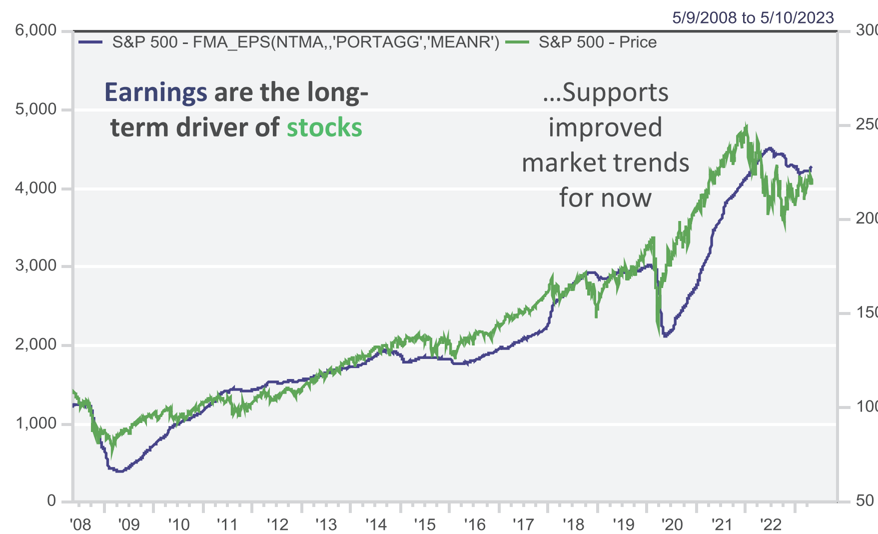
The vast majority of Q1 earnings season is behind us at this point, and results have been much better than expected. Earnings growth is set to contract -0.7% q/q and -1.6% y/y, but 78% of companies beat estimates by an aggregate 6.8% (both above historic averages). This resiliency of fundamentals in a tough economic backdrop is encouraging, and supports the price resiliency exhibited by the S&P 500 index of late.

Though forward estimates remain in an overall downtrend, the slower pace of negative revisions has allowed next 12-month (NTM) earnings estimates to hook up. Better NTM earnings expectations are supportive of market trends, and we will need to continue monitoring for durability as the economy weakens. Our 2023 S&P 500 earnings estimate of $215 bakes in a mild recession, and the recent hook up in NTM estimates supports the view that this may be priced in.



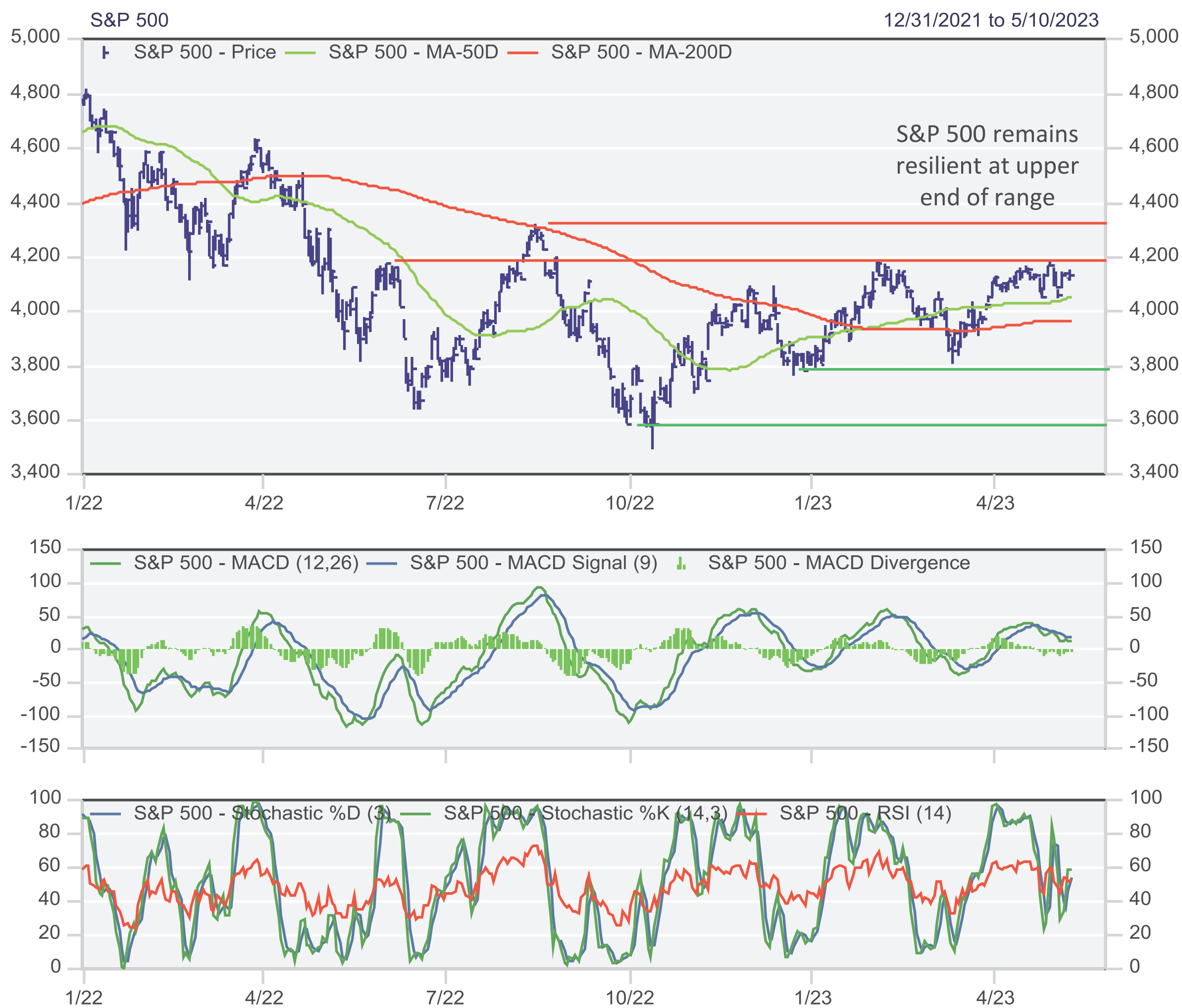
S&P 500 Consensus Earnings Estimates over Past Year





Source: FactSet

TECHNICAL: S&P 500



Source: FactSet

The S&P 500 is still hung in the same range, as investors wait on inflation, the economy (what sort of damage will be done), and whether there is another shoe to drop.

Narrow participation continues to take place beneath the surface with recent performance dominated by mega-cap Technology-oriented stocks and defensive areas. While narrow leadership is not an ideal backdrop for short-term trends, rotation is more positive than broad-based weakness.

The market grind requires patience for investors, as we may be stuck in this range for a while. Nonetheless, there are plenty of things to do for the active investor. The overall playbook remains to not chase the rallies and buy the pullbacks- and they are out there at the individual stock level.

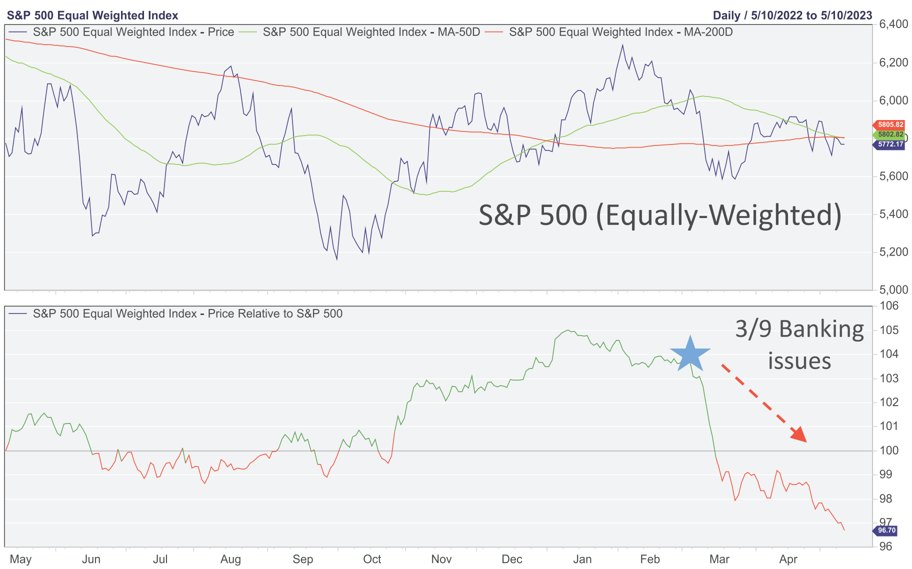
Prices remain above both the 50- and 200-day moving averages, both of which are sloping higher, which is a good sign. Ultimately, we would like to see the market make a higher low on any weakness, and we will be watching 4030-4050 for potential support, followed by the 200DMA (currently at 3972).

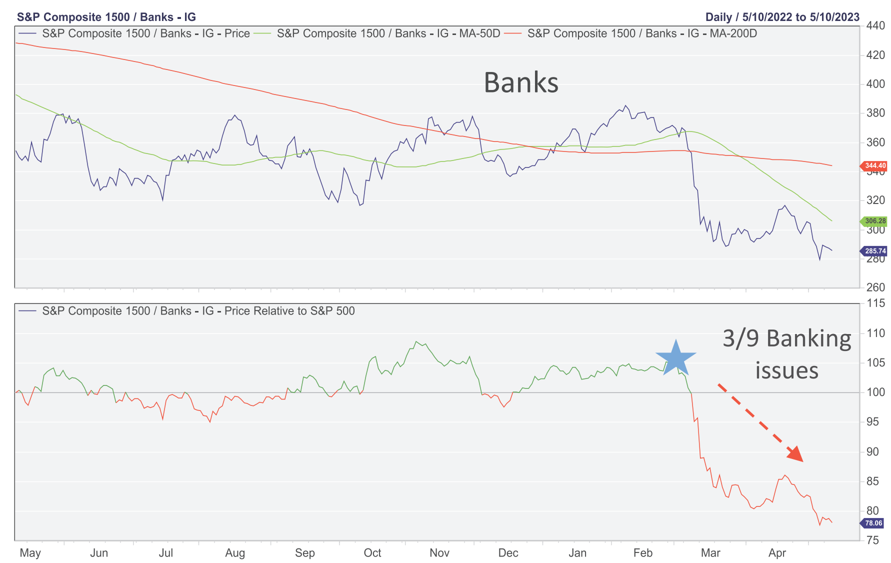
4200 is the level to watch on the upside as a move above would equate to a higher high and open the door for a run to 4325 to test highs from August ’22.

WEAK PARTICIPATION BENEATH THE SURFACE

Weak relative performance from the economic-sensitive areas continues to take place, as the small caps, banks, and average S&P 500 stock all pushed to new relative lows this week. This underlying performance provides some caution for broader market trends and supports our view that equities are not ready for a sustainable climb higher quite yet. In our opinion, choppiness is the highest probability (potentially between ~3600-4200).

S&P 500 Sectors	Price Return Since 3/8
Communication Svcs.	10.2%
Information Technology	8.1%
Consumer Staples	6.4%
Health Care	5.0%
Utilities	4.6%
Consumer Discretionary	3.9%
S&P 500	***3.2%***
Industrials	-2.7%
Real Estate	-2.9%
Materials	-3.8%
Energy	-4.5%
Financials	-7.6%





Source: FactSet

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